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# China Report

**ECONOMIC AFFAIRS**



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15 MAY 1986

## CHINA REPORT

### ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

PROSPECTS FOR INDIVIDUAL INVESTMENT MARKET

Shanghai SHEHUI KEXUE in Chinese No 10, Oct 85 pp 22-25

[Article by Long Hua [7893 5478] of the Industrial and Commercial Bank, Changde Prefecture, Hunan Province : "China's Individual Investment Market Is Forming"]

[Text] Under the capitalist system, the word investment is referred to as the activity of putting capital into enterprises in order to earn profits and is carried out mainly through the purchase of stocks and bonds issued by enterprises and corporations. Under the socialist system, it is generally referred to as capital construction investment. The word individual investment which this article is about to discuss is referred to as the economic activities of urban and rural residents who, in order to make some money, use their disposable income to purchase stocks and bonds (including treasury bonds) or directly engage in business operations.

In the past few years, along with the development of the commodity economy and the gradually deepening reform of the economic structure, China's urban and rural individual investment market has not only appeared but also begun to exert greater and greater influence on the economic life as each day goes by. Individual investment market is an important component of the financial market and its development situation has a vital bearing on both the financial market and social life. Therefore, this article is going to publish some humble opinions on the motivations and causes of the formation and development of China's individual investment market, the significance of individual investment, the main forms of China's individual investment, problems currently existing in individual investment and countermeasures for such problems.

1. The Motivations and Causes of the Formation and Development of an Individual Investment Market

There are three major factors in the formation and development of China's individual investment market:

First, a commodity economy is the foundation for the formation of individual investment market.

Under the condition of a natural economy, producers carry out production in order to support themselves and there are very few surplus products and very little demand for investment; therefore, it is unnecessary and impossible for an individual investment market to appear. Under the condition of total planning, investment is arranged by the state in a unified manner; therefore, it is impossible for an individual investment market to appear. In the past 30 years or so, China's commodity economy was very underdeveloped because it practiced a highly centralized and unified planned economy. In 1983, each of the rural laborers, who account for 70.7 percent of all social laborers, provided only 392 yuan of commodities whereas each staff member and worker of state-owned enterprises created 32-fold more in commodities. This shows the degree of underdevelopment of China's commodity economy and explains why it was impossible for an individual investment market to appear in the past. Under the condition of vigorous commodity economic development, a diversified economic structure and multiple investment channels will appear to meet the demand for diversified investment. In addition, because commodity producers (state-run, collective and individual enterprises and specialized and major rural households) have the corporate status of independent commodity producers, they may, under the guidance of state plans, make their own arrangements regarding production plans and orientation, make their own decisions on income distribution and personnel placement and have the decision-making power in investment and fund raising. These commodity producers who have the status of an economic corporation strongly call for the appearance of individual investment market.

In the past few years, since the reform of the rural economic system was carried out, rural areas have changed the self-supporting and semiself-supporting production situation and begun to develop a commodity economy at full steam. The tide of rural investment demand was the first to open up the gate of a rural individual investment market. It was in rural areas that individual investment markets first appeared and then developed rapidly. Along with the rapid development of small town enterprises and the two-household economy, multifarious forms of individual investment such as sole proprietorship, partnership, employee stock ownership and stock and bond purchases have appeared in rural areas. Following the individual investment fever in rural areas, individual investment activities also appeared in urban areas. At first, urban collective enterprises absorbed individual investment. Then, local governments issued bonds to absorb individual investment and so did some large enterprises and major state construction projects. By now, an urban individual investment market has also begun to take shape.

Second, the reform of the investment system is a condition for the formation of an individual investment market.

For a long period of time, China implemented a unified and centralized state investment policy-making system under which the state was the sole investor for the reproduction of society and all capital construction funds and circulating funds needed for expanding production were all allocated by the state. Under such an investment policy system, it was impossible for an individual investment market to appear. In the past few years, along with the reform of the investment system, the state has made direct investment only in major state construction projects, substituted "state appropriations for

loans" in general construction projects and allowed enterprises to use their own funds or raise social funds for investment, thus abolishing the previous centralized state investment policy-making system and resulting in a pluralized investment policy-making structure where investment policy-making is decentralized, investment demand is diversified and sources of investment are multiplied. The new investment system created some room for the individual investment market and paved the road for the formation and development of an individual investment market. From the changes in the structure of the sources of investment in the past few years, we can see the trend of development in individual investment markets:

Table of Changes in the Structure of Sources of Investment

	1978	1979	1980	1981	1982	1988
State investment	83.3	75.9	53.7	50.3	41.9	35.4
Domestic loans		1.0	7.4	10.1	13.1	14.3
Foreign capital		3.0	9.6	7.8	10.3	6.9
Self-pooled funds and others	16.7	20.1	29.3	31.8	34.7	43.4

Note: Self-pooled funds and others include individual investment. Except for 1983's figures which are quoted from page 302 of "China's 1983 Statistical Yearbook," all figures are quoted from page 184 of "China's 1983 Economic Yearbook."

From the above table we can see that the proportion of state funds in total investment is being gradually reduced while that of enterprises' self-pooled funds (including individual investment) is being increased by a wide margin. The pluralized investment policy-making system has created conditions for the formation and development of individual investment markets whereas the development of individual investment markets will in turn accelerate the further improvement of the investment policy-making system.

Third, the increase in the money income of urban rural residents is a key to the formation of individual investment markets.

To make investments, individuals must accumulate a certain amount of money-capital. Before the 3d Plenum of the 11th CPC Central Committee, the increase in the money income of urban and rural residents was slow, the food and shelter problem of many peasants in rural areas was unsolved, the wages of urban workers were frozen over a long period of time and basic consumption needs were not met. Under such conditions, where did people get money for investment? After the 3d Plenum of the 11th CPC Central Committee, the state implemented the policy of helping the people to get rich and advocated the idea of letting some people get rich before others. As a result, the money income of urban and rural residents increased by a wide margin. In 1984, the average per capita money income of peasants reached 355.3 yuan, an increase of 221.7 yuan or 1.6-fold over the 1978 figure. In addition, a group of households were able to make 10,000 yuan that year. According to the survey of 7,269 higher-income specialized rural households



throughout China, carried out by the agricultural department of the State Statistics bureau, the average household income reached 15,593 yuan and the average per capita net income reached 1,394 yuan in 1984. In urban areas, the average wage income of staff members and workers of state-owned enterprises reached 961 yuan in 1984, an increase of 347 yuan or 56.5 percent over 1978. The rate of increase of the money income of staff members and workers of collectively-owned enterprises in urban areas was even higher. Moreover, a group of individually-owned businesses in urban areas became relatively prosperous. The increase in the money income of urban and rural residents has raised the consumption level and improved the living standards. In addition, it has resulted in a substantial increase in disposable income. This is demonstrated by the sharp increase in the savings deposits of urban and rural residents, which reached 142 billion yuan throughout the country toward the end of June in 1985. It is also demonstrated by the fact that now urban and rural residents have over 50 billion yuan of cash on hand. This is the material foundation for the formation and development of China's individual investment market.

A part of the money-capital accumulated by urban and rural residents may be used for retirement, health care, emergencies and selective purchases to raise the consumption level; the other part may be used for individual investment. The current phenomena that many 10,000-yuan rural households rush to spend all their money on the subscription of treasury bonds and urban and rural residents actively purchase stocks and bonds indicate that Chinese individuals have the desire of choosing various forms of investment to earn various kinds of profits. This is the key to the formation and development of China's individual investment market.

## 2. The Significance of Individual Investment

Forming and developing an individual investment market is of great significance to the reform of the economic system and the development of the commodity economy. It has many advantages including at least the following four:

A. Individual investment can raise more construction funds for the state. We need a large amount of funds for the cause of the "four modernizations," but state funds are far from being able to satisfy the investment demands of all fields. This is one of the prominent problems in the economic development of China. Relying only on the state and bank channels to solve the construction funding problem is insufficient. We must go through multiple channels, open all financial resources, give full play to the functions of state, bank, foreign, enterprise and individual investments and encourage urban and rural residents to invest their money so as to transform small amounts of scattered funds into large amounts of concentrated funds and transform idle and consumption funds of society into production and construction funds. If properly organized, transferring part of the savings deposits and cash holdings of rural and urban residents to individual investment is totally possible. If 1 percent of the 50 billion yuan of residents' cash holdings is transferred, there will be 500 million yuan of individual investment; if 10 percent is transferred, there will be 5 billion yuan. For another instance, if 10 percent of national savings deposits (based on the figure at the end of



June 1985) is transferred, there will be 14.2 billion yuan of investment; if 20 percent is transferred, there will be 28.4 billion yuan. This is a considerable figure.

With the approval of the State Council, a plan has been worked out lately to issue 2 billion yuan of bonds to solve the funding problem of township and town enterprises and urban collective enterprises. This is a very wise and feasible measure. Because currently township and town enterprises and urban collective enterprises are growing very fast, issuing bonds to absorb individual investment can solve the funding problem of collective enterprises and reduce the pressure on the market caused by residents' purchasing power. This is conducive to the reforms of the economic and price systems.

B. Individuals' involvement in investment can increase investment returns. Encouraging individual investment can change the number of China's policy makers from three--the state, bank and enterprise--to four. Because they have to take greater risks in investment, individuals will pay more attention to selecting the orientation, forms and conditions of investment and do their best to gain more profits from their investment, thus making it possible for investment to flow freely according to the amount of capital returns. For one thing, this practice enables social funds to flow automatically to those departments and enterprises which have greater investment results and higher efficiency and provides more investment for those enterprises which have advanced technology, good quality of products and high labor efficiency and for the development of new technology and products, thus accelerating the development of those departments and enterprises which have greater economic results and are urgently needed for the development of the national economy; for another, individuals' involvement in investment links investors' economic interests directly to those of fund raisers to insure the sharing of risks and interests and forces both investors and fund raisers to be concerned with the results of the use of funds, thus resulting in greater returns on investment.

C. Encouraging individual investment can regulate social purchasing power. Along with the increase in the money income of urban and rural residents, consumption funds have increased abruptly in the past few years and the major part of the increase in the national income has been personal income. During the 4 year period between 1979 and 1982, China's national income increased by 123.7 billion yuan, of which, 102 billion yuan, 83 percent, went to peasants and the staff members and workers of material production departments. In 1982, 129 percent of the increase in the national income was used in consumption. The increase in consumption funds is not a result of increased national income and labor productivity. Instead, it is a result of improper distribution of national income, increased foreign debts and additional issues of currency. The abrupt increase of consumption funds is bound to increase social purchasing power and cause great pressure on the market. Then, how do we regulate social purchasing power to reduce the pressure on the market? This year, in addition to increasing the production of readily marketable consumer goods, the state adopted some special measures to withdraw currency from circulation while vigorously promoting savings deposits. However, savings deposits are the same as purchasing power, only deferred. It can cause potent pressure on the market. Therefore, I think raising the interest rate of savings deposits is not the best way for the state to stabilize savings.

Besides, some residents are no longer interested in the interest rate of savings deposits. They hope that they can find an ideal kind of financial asset that can not only maintain but also increase its value. Under general conditions, returns on individual investment are greater than interest on savings deposits. Therefore, encouraging individual investment can directly transfer part of savings deposits and cash holdings to investment to alleviate the supply and demand contradiction of the market, reduce the pressure on the market caused by surplus purchasing power, regulate social purchasing power, promote a balance between the supply and demand of social commodities and help stabilize prices, maintain currency value and ensure market prosperity.

D. The formation of an individual investment market can accelerate the perfection of the money market. The money market is where capital creditors and debtors make contact with each other to buy and sell capital commodities. Major financial instruments used for trading on the money market are stocks and bonds. Except for enterprises, urban and rural residents are the only subscribers of stocks and bonds; therefore, individual investors are major prospects for the subscribers of negotiable securities. For instance, about half of the treasury bonds, worth nearly 10 billion yuan, issued in the past were purchased by individuals. At present, social fund raising in some areas is mostly aimed at urban and rural residents. Therefore, to improve and develop the money market, China must have a relatively developed individual investment market. Without an individual investment market, the money market will be imperfect or inactive.

### 3. Main Forms of Individual Investment

Judged by the experiences of most countries in individual investment and the practices of individual investment already appeared in China, I think China's individual investment may take two basic forms. One is property investment. For instance, individuals invest in enterprises in the form of partnership or sole proprietorship, rent, lease or contract for the management of small state enterprises and construction businesses or purchase real estate. The other is stock investment such as subscribing to stocks and bonds.

China's individual investment is only a very small part of the whole national investment structure. It is a supplement to state investment. At present, since the personal money income of China is not high and the scale of the accumulation of disposable income is limited, it is impossible for individual asset investment and privately-owned enterprises to adopt many characteristics; therefore, at present, stock investment is the main form of individual investment in China because it has the following characteristics: 1) The minimum amount of stock investment is small. Stocks and bonds are issued in small denominations and large numbers of shares which are compatible with the characteristic that residents in China have little surplus income. Investors may purchase more when they have more money and less when they have less. 2) The liquidity of stock investment is high. Negotiable securities purchased as individual investment are generally allowed to be freely transferred on the money market. If investors want to transfer investment, they can always sell their securities on the money market and then purchase the kind they think is an ideal investment. 3) Stock investment can be easily turned into cash. If investors want to cash investment securities for

emergency use, they can sell, pledge or cash them at a discount on the money market.

There are mainly five concrete forms of individual security investment:

The first one is stock. Stock as a form of individual investment is applicable mainly to enterprises which allow their staff members and workers to become shareholders, to enterprises established by individuals in the form of partnership and to enterprises of the tertiary industry. At present, many township and town enterprises and urban collective enterprises have pooled funds by issuing stocks to individuals, but very few state-run enterprises have yet pooled funds through stock issuance. From now on, along with the increasingly in-depth reform of the economic system, state-run enterprises, even large and medium-sized ones, will also issue stocks to their staff members and workers to pool funds.

The second one is treasury bonds. This is a financial resource for China to pool funds to carry out major state construction projects and offset financial deficits. Treasury bonds belong to the category of state and government bonds. Characterized by a good reputation and no risks, they are an excellent form for absorbing individual investment. In order to give a better play to the function of absorbing individual investment of treasury bonds, China's treasury bond system should be reformed. The general orientation for reform is to raise the interest rate, shorten the time period, allow circulation and enable treasury bonds to really become a choice in the main forms of individual investment.

The third one is financial bonds. According to some special financial demands, banks may, in addition to organizing the savings deposits of residents, issue financial bonds to raise funds needed for special loans. Financial bonds are also a kind of investment security extremely welcomed by individual investors. It also has the characteristics of good reputation and no risks. The issuing banks can not only reduce their service of handling the withdrawal, deposit and interest calculation of savings deposits but also gain a stable source of funds to meet some special financial demands.

The fourth one is local government bonds. In order to develop the local economy and meet the financial demands for some major local construction projects or public facilities directly benefiting urban and rural residents, local government bonds may be issued to local residents or people from other areas living in the same area to absorb individual investment.

The fifth one is corporate (enterprise) bonds. This is a kind of negotiable security issued by corporations (enterprises) to expand the scale of production and operation or carry out technological transformation. Corporate (enterprise) bonds may be issued to the public in addition to the staff members and workers of the corporation (enterprise).

#### 4. Problems and Countermeasures of Individual Investment

Encouraging individual investment and opening an individual investment market is a new task. It is not a simple issue concerning the form of investment.



It concerns the interests among the state, collectives and individuals, financial and credit income and expenditures, overall balance, the planned economy and market regulation. It has vital bearing on the reform of the economic system and the development of the commodity economy. Therefore, it is necessary to open an individual investment market to invigorate the economy; it is also necessary to strengthen macroeconomic control, overcome blindness and enable the individual investment market to develop soundly along the orientation of socialism.

First, individual investment laws should be formulated. Individual investment concerns complicated distribution of interests pertinent to property equity and ownership and is subject to very little administrative interference and regulation; therefore, it is necessary to pay attention to the application of economic and legal means for the purposes of control and regulation. At present, the state should promulgate some provisional rules and regulations for the control of individual investment and then gradually formulate official laws on individual investment so that investors, fund raisers and supervisors will have some laws to go by.

Second, special administrative organs should be established for individual investment. Individual investment is another channel for pooling funds other than the state treasury and banks. Without a special administrative organ to strengthen control and supervision, it is possible to cause adverse effects on the control of the scale of capital construction, the fields of investment, the distribution of dividends and extra dividends, the prevention of speculative activities, and the protection of individual investors' interests. Because of this, before the state establishes a special individual investment administrative organ, a special individual investment administrative organ must be established in the central bank to manage, examine and supervise all matters concerning individual investment.

Third, the stock market should be opened. Whether individual investment securities can be bought and sold freely is an important condition for ensuring whether an individual investment market can develop smoothly. Prohibiting stocks, bonds and other investment securities from having a certain degree of liquidity and occupying investors' capital over a prolonged period of time can increase investors' opportunity costs, dampen their enthusiasm and hinder the exercise of the function of regulating capital distribution through the purchases and sales of investment securities. Before the conditions for opening the stock market are ripe, individual investment securities should be allowed to be cashed at a discount or pledged at banks. After such conditions are ripe, a stock market should be opened to facilitate the circulation and transfer of individual investment securities.

Fourth, individual investment income should be fixed rationally. Individual investment income concerns the interests of the state, collectives and individuals. If individual investment income is too high, it will increase the investment cost of fund raisers and adversely affect the interests of the state and collectives. If it is too low, it will adversely affect the enthusiasm of individual investors. Therefore, when fixing individual investment income, equal considerations should be given to the interests of the state, collectives and individuals. Generally speaking, stock investment

involves investment risks, but it yields extra dividends; therefore, the amount of dividends paid on stocks should be slightly smaller than the amount of interest paid on fixed 1-year savings deposits. Bond investors get their capital and interest back at a fixed date and cannot enjoy extra dividends because they are not responsible for the success and failure of enterprise management; therefore, the amount of dividends paid on bonds should be slightly greater than the amount of interest paid on fixed savings deposits of the same class. Aside from this, in order to encourage individual investment, we may also consider, in accordance with the characteristics of the returns on investment projects, distributing or supplying to individual investors a fixed amount of raw materials and fuel, giving them priority in regard to the material indexes of various consumer goods or directly issuing bonds that will be repaid in these material objects.

Fifth, the field of individual investment should be controlled. In order to prevent individual investment from adversely affecting the state plan and the national economic structure, the state should, in addition to providing the scope of use for individual investment, announce on a regular basis the field of individual asset investment to chart the orientation of individual investment, prevent the blindness of individual investment from causing negative effects on the national economy and enable the individual investment market to give real play to its positive function of supplementing investment, perfecting economic structure and invigorating the economy.

Sixth, progressive taxes should be levied on individual investment income. Urban and rural residents' individual investment income is a lawfully earned income. It is a reward for contributing construction funds to the state. However, along with the increase in the personal income of urban and rural residents, individual investment will increase as each day goes by; so will the income from these individual investments. In order to readjust the relation of interests between the state and individuals, it is necessary to levy progressive taxes on individual investment income. To start, it is necessary to set a higher cutoff point on the amount of taxable income and a lower tax rate which may be gradually readjusted later according to the development of individual investment.

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## ECONOMIC MANAGEMENT

### NATIONAL PROGRAM TO MODERNIZE ENTERPRISE MANAGEMENT

OW261028 Beijing XINHUA in English 0845 GMT 26 Apr 86

[Text] Beijing, April 26 (XINHUA)--China has drawn up its first national development program for modernizing enterprise management, according to a senior economic official here today.

The program will help to explore ways for setting up a modern business-management system with Chinese characteristics during the Seventh Five-Year Plan period (1986-90), Zhang Yanning, vice minister of the State Economic Commission, told factory directors and managers at an economic forum here.

It will also help to lay a solid foundation for rapid economic growth during the last decade of this century, said Zhang, who is also in charge of the program.

The program was drawn up by a group of business-management experts who have made a comprehensive survey of the present business-management conditions.

It is learnt that the state has chosen 6,400 large and medium-sized industrial enterprises that produce 66 percent of its income to be the pace-setters in the management modernization drive.

With the stress on improving the quality of products and reducing consumption of energy and raw materials, it has set targets for management for different enterprises to achieve.

At present, Zhang said, production under a highly centralized system is gradually being replaced by more flexible policies that encourage independent management with responsibility over profit and loss. Profits depend more on modern management than anything since good management will lead to mass production of quality items at the lowest possible cost, he stressed.

Zhang called for implementing the program sincerely so as to imbue the enterprises with more vitality, raise economic efficiency and expand productivity.

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CSO: 4020/300

## ECONOMIC MANAGEMENT

### MACROCONTROL TO ENLIVEN LARGE ENTERPRISES

Beijing JINGJI GUANLI in Chinese No 1, 5 Jan 86 pp 3-7

[Article by the Research Office of the Jiangsu Provincial CPC Committee:  
"Macroeconomic Control Must Be Made Conducive to the Stimulation of Large and Medium Enterprises"]

[Text] According to the spirit of the instructions of the responsible comrades of the provincial CPC Committee, since last March, we have gone to Xuzhou, Nanjing, Nantong, Changzhou, Wuxi and other cities to investigate and study the question of how we are to invigorate our large and medium-sized enterprises. We investigated 26 large and medium-sized factories and had get-togethers and discussions with over 100 responsible comrades at the basic level. During the several months of investigation, we deeply realized that to invigorate our large and medium-sized enterprises, we must create certain external macroeconomic conditions for them. When the various levels of central, provincial, and city economic departments, especially comprehensive economic departments, adopt economic, administrative and legal means to conduct macroeconomic administration and inspection, give guidance, and regulate enterprises, they should not only proceed from the whole national economic situation and start from striking financial, credit, materials and goods and foreign exchange balances and harmonize major proportional relations, but also get a tight grasp on the key link of economic structural reform, start from enlivening large and medium-sized industrial enterprises and correspondingly formulate decisions, principles, policies and measures of macroeconomic administration.

Judging by the findings of the investigation, at present, people differ greatly in their understanding and views about the strengthening of macroeconomic control. Comrades in some responsible economic departments think that strengthening macroeconomic control means "taking back power," and restoring past practices. Comrades in some enterprises think that strengthening macroeconomic control means reducing the decisionmaking power of their enterprises and tying hands which have just been freed. Other people hold that current macroeconomic controls are an expedient measure and that "historical experience has proved that it is the naive who suffers and that one will be all right if one can brave this temporary trend." Different understandings necessarily give rise to different reactions. Economic departments differ in ways of imposing control over lower levels, and each basic-level enterprises also adopt its own different measures to deal with the control. We think the macroeconomic control that the

state imposes on the entire economic situation is not an expedient measure, but a fundamental principle that we must adhere to for a long time in developing the planned commodity economy under socialist conditions. Both the state's economic departments at various levels and any of our basic-level enterprises must correctly understand and handle the relationship between macroeconomic control and microeconomic invigoration. During the investigation, we made a solid analysis of new situations and problems that had emerged in the production and operation of large and medium-sized enterprises since we strengthened our macroeconomic control in 1985, and we studied and probed into, from the standpoint of invigorating these enterprises, the following principles that we should pay attention to in imposing macroeconomic control:

First, proceeding from the overall goal of the whole national economy, the policy decisions and measures of macroeconomic control must be conducive to fully exploit the advantages of large and medium-sized enterprises.

The whole national economy is an overall situation in which all the links and sectors are mutually related and interact and thus form a vast complicated system. In this vast system, our large and medium-sized enterprises play a decisive role. Judging by what people at the basic level have told us, in formulating their policy decisions and measures of macroeconomic control, the economic departments at various levels should pay attention to the following three points:

1. Concerning the policies that handle relationships among various economic levels, we should focus attention on the large and medium-sized enterprises that have major significance on the whole situation. An important mission for economic departments at various levels in imposing their macroeconomic control is to satisfactorily regulate and coordinate the relationships among various economic forms and economic levels. In the process of the implementation of the policy of opening up to the outside world and enlivening the economy at home, we adopted a series of macroeconomic policies of opening up and enlivening aimed at our small enterprises and collective enterprises. This is entirely correct and necessary. In reality, however, this has a very strong impact on our large and medium-sized enterprises. Since the competition was not carried out under equal terms, in regard to retained profits and bonuses and fringe benefits for employees, "state-owned enterprises enjoyed less satisfactory treatment than collective ones, large and medium-sized enterprises enjoyed less satisfactory treatment than small ones." Therefore, we could not fully turn the advantages and strengths of large and medium-sized enterprises into real vitality in their production and operation. At present, scientific and technological workers in quite a few large and medium-sized enterprises want to leave for jobs in other enterprises, and their contingents of employees are having second thoughts. This hinders exploitation of their initiative in improving economic results. During our investigation, many factory directors expressed a common view that the state should shift the focus of its preferential policies toward enterprises onto enlivening its large and medium-sized enterprises. The economic departments must regard invigorating large and medium-sized enterprises as the strategic key to their macroeconomic management and implement preferential policies in taxation, credit, price, wage, benefit and other spheres to fully exercise the advantages of large and medium-sized enterprises concerning their products, funds, equipment, personnel and management.

2. When the power to administer enterprises has been transferred down level by level, the administration over large and medium-sized enterprises by local economic departments at various levels must be consciously geared to the overall development of the whole national economy. We have contacted quite a few officials of the enterprises which were previously under the jurisdiction of ministries or provincial governments. They expressed different degrees of worry about the question of whether local economic departments would be able to administer satisfactorily after their enterprises were transferred to the jurisdiction of local governments. For since the enterprises were transferred downward, there has been a drastic change in their supply of energy and raw materials, sources of funds and personnel, and external economic cooperation and coordination, and many real difficulties have emerged. For the time being, local economic departments are not entirely able to help them overcome the above-mentioned difficulties. In particular, it takes a relatively long period of time for local economic departments to learn, grasp and improve their ability to take responsibility for leadership and administration over large, modern backbone enterprises. Under these circumstances, it is particularly necessary for local economic departments to foster their sense of the whole situation and respect enterprises' decisionmaking power over their production and management and original external links and cooperative relations. We believe that through prolonged practice of production and management, enterprises understand very well their position and role in their lines of trade and are also very clear about whose jurisdiction they should come under and what relations they should establish. Thus, in the process of transferring downward the power of administration over enterprises, we should not adopt the simplistic method of issuing administrative orders to decide what departments our enterprises should come under the jurisdiction of, but should allow enterprises a certain freedom of choice in the light of reasonable external economic relations required.

3. Whatever policy decision we adopt and whatever measure we take, we should fully estimate the possible impact of the decision or measure on large and medium-sized enterprises to improve foresight and capability of control in strengthening macroeconomic control. The findings of our investigation prove that after a large or medium-sized industrial enterprise makes a policy decision on its production and operation, it very much hopes to have relatively stable external environment to ensure the continuity of its production and operation. At various symposiums, comrades from enterprises strongly resented the evil consequences of the runaway expansion of credit and consumption funds in the fourth quarter of the year before last. The sudden change in credit policy a few months ago found many enterprises unable to continue capital construction and technological transformation projects. As a result they were unable to turn into actual production capacity the funds, materials and goods that they had put into the projects. In 1985, their production and operation were strapped by shortage of funds, materials and goods. The major causes for the above-mentioned troubles did not lie in basic-level enterprises, but were the inappropriate policies of the responsible departments concerned. These comrades universally called on the upper-level economic departments to give more planned guidance and apply the brakes less frequently; to impose more control beforehand and less restriction after; to impose more direct and less indirect control; and to do more guidance work and less mending of loopholes afterwards. It is impossible for the comrades at the basic level to have all-round access



to the information related to all sectors of national economy and they can only base policy decisions about their enterprises' production and operation on the policies of the upper-level economic departments and the supply and demand relations in the market. Therefore, when the economic departments at various levels formulate policies, they should not base policies on the situation in their own departments nor proceed from the interests and needs of one department alone, but should make a forecast of the various possible impacts of policies from standpoint of the whole national economy as a vast system and see whether the policies are conducive to macroeconomic control and micro-economic invigoration. Then they can decide whether the decisions should be made and implemented. By so doing, there will be scientific foresight in their various economic policy decisions and measures and the economic departments at various levels will be able to improve capabilities in imposing effective control over economic development.

Second, we should act in accordance with objective economic laws and coordinate and dovetail the various economic means, levers and links in various reform measures.

To satisfactorily coordinate relationships among economic, administrative and legal means, at present, we should focus on solving the problem of the responsible departments and companies of administrative nature retaining the powers that should be granted to enterprises. Under socialist conditions, it is necessary to exercise macroeconomic control over the commodity economy and adopt economic, administrative and legal means for this purpose, but we must act in accordance with economic laws whatever means we adopt. Within a certain scope, in particular, when unusual situations emerge in economic life, very obvious results can be achieved through administrative intervention. However, the effect of intervention by administrative means is often uniform; hence this intervention will inevitably sever some rational economic relations and hinder the normal operation of the economic mechanism in some spheres. So, when we apply administrative means in the intervention of our economy, we must also respect objective economic laws and adopt corresponding economic means to coordinate with them. At present, we should pay attention to summing up the experience in economic work, gradually establish and perfect the regulations and rules that correctly handle economic relations and interests and set up systems and formulate laws for economic administration to overcome the practice of carrying out economic administration at will.

When we were making investigation in various cities, the large and medium-sized enterprises unanimously reflected the problem of industrial companies of administrative nature retaining the decisionmaking power that should be transferred to enterprises. Most of these companies evolved from the various responsible industrial bureaus in the reform in government organizations in 1983, but the functions of the governments have not been separated from the functions of enterprises and the responsibility of office for these companies have not been clearly defined. As a result, these companies firmly held onto the decision-making power that should have been granted to the enterprises, and through both economic measures and administrative orders interfered with the production and operation of enterprises. These companies were bloated and overstaffed, and charged a great deal in management fees, burdening the enterprises. Over the



past 2 years, some companies of administrative nature seemed to have applied economic means in administering the enterprises, but their motives were not to satisfy the demand of objective economic laws themselves, but to improve their administrative orders. If we fail to solve the problems related to these kinds of companies, it will be very difficult to invigorate large and medium-sized enterprises. We must consolidate and reorganize these companies in accordance with the principle of separating the functions of government departments from those of enterprises and of streamlining administration and decentralizing power.

We should satisfactorily coordinate the relationships between various economic levers. The governments at various levels should set up authoritative organizations of comprehensive coordination. Large and medium-sized enterprises unanimously reflected the fact that at present few of the regulations by the State Council and the provincial and city governments on expanding the decisionmaking power of enterprises have actually been implemented in factories. In addition to some responsible departments and companies of administrative nature retaining power, another important cause is that some of the reform measures are not complete, the relationships between some economic levers have not been satisfactorily coordinated, and the regulations promulgated by some economic departments contradict or even conflict with one another; hence little of the power that has been clearly defined to belong to our enterprises can really be exercised. For example, when the prices of energy rise, the prices of products cannot rise correspondingly; goods of fine quality are not allowed to sell at better prices and the products of the same grade of well-known brands cannot be sold at the same price level; no loans or supply of corresponding materials are available for technological transformation projects approved by the planning departments; the units to which the labor department have given approval for carrying out the experiments of "paying wages in the light of economic results" fail to have corresponding approval from financial and tax departments which charge bonus taxes on the increased amounts of floating wages; it has been stipulated that there is no ceiling for bonus payments after a bonus tax is levied, but the total amount of wage and bonus payments is not allowed to exceed the figure for last March; and it is stipulated that the enterprises have the decisionmaking power to spend their retained funds independently but in fact there are many restrictions even within the scope of the stipulation. The investigation found that the major reason for the failure of coordination in the above-mentioned application of various economic means is that at the transitional period when the new and old administration systems coexist and when the former replaces the latter, in applying the economic levers in their respective charge, the various economic departments are often not good at considering and handling problems from the aspect of the overall economic reform; therefore, it is necessary for the governments at various levels to each have an authoritative comprehensive organ to coordinate the relationships among economic departments and economic levers from an organic and integrated whole of which all the parts are interrelated and interact. The normal operation of the economy of the whole society is the result of the sum of the functions of all the economic levers. Just as many factory directors pointed out: when economic departments are applying economic levers, they should apply "force" on large and medium-sized enterprises to invigorate them, select an accurate direction for the application of the "force" on each enterprise, and satisfactorily decide the "strength of the force." Only by so doing can there be a vast "joint force" to stimulate large and medium-sized enterprises.

To satisfactorily match the two economic links of production and circulation, we should analyze in a practical and realistic manner the ability of enterprise in sustaining the rises in the prices of energy and raw materials. Judging by the findings of our investigation, the phenomenon of production failing to coordinate with distribution and consumption has already been greatly eased since we strengthened macroeconomic control over consumption funds last year. Nevertheless, there has been serious failure of coordination between the two links of production and circulation. In particular, when the prices of energy and raw materials rose, the prices of products could not be increased correspondingly and enterprises were required to absorb the price rises on their own. This puts heavy pressure on large and medium-sized enterprises. We selected enterprises in different lines of trade to make a specific calculation of their actual ability in absorbing price increases. For example, the Nantong Pesticide Plant's profit fell by about 5.88 million yuan last year, an amount greater than the total amount of the plant's realized profit for the year before last. Because the industry is depressed at present, the enterprise can only absorb about one fourth of the price rises on its own. The reduction in profit caused by the price rises last year was about 12.15 million yuan for Changzhou Qishuyan Locomotive Plant. It strengthened its management and lowered its costs to offset 2 million yuan of the reduction and increased its output to earn more profit to offset 8.15 million yuan of the reduction, but its total profit was still 4 million yuan less than the year before last. There were seven factors leading to profit reductions for Nantong No 1 state-owned cotton mill. According to estimates, they would have caused a reduction of 6.49 million yuan in the mill's profit. The enterprise could make efforts to absorb 3 million of the reduction and the rate of absorption was 46 percent. All these enterprises were long-standing advanced enterprises in their lines of trade. We should say that they have relatively greater ability of absorption than other enterprises in the same lines of trade, but it is indeed very difficult to manage to absorb all the price rises on their own. The relevant departments in Nanjing City have made a comprehensive investigation and analysis of the absorption capability of the enterprises in its four major departments--the first department of light industry, and the departments of textiles machine building, and chemical industry, and found that 40 percent of the enterprises have a definite absorption capability and 30 percent of the enterprises have some capability and can still earn some profit. A portion of the absorption capability for these two categories of enterprises has been due to their technological progress and to the improvement in their management, but these enterprises mainly rely on putting in additional animated and materialized labor, increasing output and improving economic results to offset the rise in material costs. On the other hand, two categories of enterprises have relatively weak absorption capability. One category undertakes much foreign trade work and jobs assigned by mandatory plans. These enterprises lack initiative in carrying out their production and operation and the prices of their products for export and for domestic sales have dropped. In spite of relatively strenuous efforts, they are still difficulties. These enterprises account for 20 percent of the enterprises under the investigation. The other category is enterprises that consume large amounts of raw and processed materials and energy, much of which is not allocated by the state. They have to purchase materials and energy at negotiated prices and are having even greater difficulties. They have already done their utmost to absorb the price rises but still suffered losses or have been on the verge of suffering losses. These enterprises account for 10 percent. We feel that since price reform is the key to economic structural reform, we must steadfastly

carry it out, but we should also make an analysis in a practical and realistic manner of the enterprises' actual capability to sustain and absorb the price reform. 1) We should raise different demands for the absorption capability of different enterprises in light of the characteristics of different lines of trade and we must not treat things in a sweeping manner without considering the differences. 2) We should rely mainly on progress of technology and improvement of management rather than putting in more animate or materialised labor in heightening the absorption capability of enterprises. This takes some time; hence we should not be too anxious in requiring enterprises to improve absorption capability. 3) We should regard the absorption capability of our enterprises as a major index for the evaluation of their comprehensive economic results and the actual amount absorbed as an integral part of the profits earned by the enterprises and link it with the wages, bonuses, and fringe benefits of employees.

Third, we should make a tangible analysis of the actual situation and encourage and help some large and medium-sized enterprises to become invigorated first.

Every large or medium-sized enterprise has its advantages and strengths, but as the characteristics of the production and operation of their line of trade varies and as their quality varies, so does their development. It is impossible for us to require all large and medium-sized enterprises to become enlivened together in a short time. But we should make specific analysis of actual conditions and implement preferential policies for some enterprises concerning their technological transformation, supply of energy and raw materials, credit supply, taxation, and profit delivery to encourage and help them to become enlivened earlier than others.

1. We should start from augmenting the reserve strength for national economic development and allow a portion of backbone enterprises in energy and raw materials industries to become enlivened first. Energy and raw materials industries are the foundation for the development of all industry and are also the weak links in current national economic development. Allowing these large and medium-sized enterprises to become enlivened first is of very great significance for the development of the national economy as a whole.

2. We should put an end to policy of punishing those who have made quick progress and allow some advanced enterprises to become enlivened earlier than others. In our investigation, we had contact with quite a few advanced enterprises who have relatively strong enterprise leading groups and relatively satisfactory technology and management, who have made relatively large contributions to the state, and who are entirely provided with the condition to become better enlivened and managed. Nevertheless, our policy of punishing those who have made quick progress has harmed the initiative, creativeness and enthusiasm of these enterprises and their employees. This policy has been centrally manifest in the high rate of readjustment taxes that we have imposed on advanced enterprises, the low retained profits for them, and the low bonuses and fringe benefits for their employees. At present, the rate of readjustment tax for an enterprise is determined by the record of earning profits of the enterprise in the past few years and the average per capita retained profit of its line of trade. This practice fails to take into consideration the changes in



the production, operation and prices in various industries and enterprises in the process of the readjustment since 1979 or the necessity to give certain encouragement to the enterprises that have made greater contribution to the state. Closely related to this is the practice of punishing those who have made quick progress in the process of the reform to "link wages with economic results." In our investigation, we asked many enterprises to make a specific calculation, proving that after the implementation of the policy of "linking wages with economic results," the cadres and employees in the enterprises with good economic results can get very little floating wages; while those in the enterprises originally with poor economic results can have comparatively much more benefit without making much effort. We hold that the state should give full consideration to the situation in and requirements of advanced enterprises, gradually reduce readjustment tax and thus enable them to have more funds to develop their production and improve their employee's living standard and fringe benefits. In implementing the policy of "linking wages with economic results," we should fix a base figure for tax payments and profit delivery. This figure should not be based on the actual figure for the preceeding year alone, but should be based on the average profit level of the enterprise in its history. As a basis in deciding the proportion of floating wages, we should not regard the level of per capita floating wage in the same line of trade, but the average profit level of the same line of trade. A higher proportion of floating wages should be allowed for enterprises with higher profit level, and vice versa. To enable our advanced enterprises to have vigor and vitality earlier than others, we have to focus on key enterprises in giving macroeconomic guidance. In other words, we should put our limited funds and materials and goods in the enterprises with good quality and high economic results and thus enable them to develop quicker than others.

3. We should start from opening up international market and invigorate earlier than others the enterprises with greater capability of earning foreign exchange. Large and medium-sized enterprises should be geared to international as well as domestic market. Invigorating earlier than others the large and medium-sized enterprises that are assigned with the heavy job of exports and improving ability to earn foreign exchange is of very great significance in adhering to our policies of opening up, opening up international markets, importing advanced technology from abroad, and speeding up the development of the national economy. According to the findings of our investigation, however, at present, the production initiative of quite a few enterprises assigned with heavy export jobs is not high. There are in the main the following problems:

- 1) industry is seriously separated from trade. As a result, the enterprises have no decisionmaking power over their production. The comrades in the Nantong No 2 state-owned cotton mill said that their enterprise knew very little about the reputation, prices and price trends of their products in the international market; hence, it was impossible for them to promptly readjust its product mix to reflect international market conditions. Because of this, they were always in a passive position in carrying out production and operation.
- 2) The disparity between the prices of the same products for domestic sales and exports gives rise to unsatisfactory economic results for enterprises. Enterprises even incur losses in exporting some of their products. This has a direct impact on the economic interests of the enterprises and employees.
- 3) The policy on the sharing of the foreign exchange an enterprise has earned

has not been implemented; consequentially, those who earn more foreign exchange are not allowed to spend more foreign exchange. We are of the opinion that the state should adopt special preferential policies toward the enterprises that are assigned the burdensome job of exports, link production with trade, gradually enable the producers to market their goods and grant the enterprises provided with the necessary conditions to directly do business in the outside world. At the same time, it must conscientiously implement the policy of sharing the foreign exchange, help the enterprises assigned with heavy tasks of exports to expedite technological transformation and thus heighten competitiveness in the international market. Moreover, we must adopt preferential policies toward the enterprises that cannot directly earn foreign exchange but whose products can be used as substitutes for imported goods and thus facilitate conservation of foreign exchange.

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## ECONOMIC MANAGEMENT

### URBAN PLANNING URGED FOR CONTROL OF CAPITAL CONSTRUCTION

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[Article by Zhang Qixian [1728 0892 0341]: "Comprehensive Urban Development Is an Important Means for Controlling the Scale of Capital Construction"]

[Text] The excessive scale and long duration of capital construction are old problems, around for many years. From 1981-1984, 232.8 billion yuan of investment was completed in the capital construction throughout China, greater than the target of 230 billion yuan set for the Sixth 5-Year Plan. It is estimated that the investment in capital construction in the Sixth 5-Year Plan period exceeded the planned target by about 85 billion yuan or 37 percent. The rate of accumulation was 30 percent for 1984 and there was a trend to continue to rise in the first half of 1985. The excessive total scale of capital construction and the excessive rate of accumulation could stimulate the quick increase in production for a short time, but were a signal for latent danger that would hinder the sustained and steady development of the national economy. It is very possible that after a certain period of time, the shortage of some products in great demand and the disruption in some weak links will give rise to serious difficulties and force the suspension of construction of many projects. Therefore, everyone has shown great concern for the issue of controlling the total scale of capital construction.

To solve this problem, in addition to imposing controls in the spheres of planning, bank loans and management of materials and goods, we should reform the existing system of allocating investment funds, materials and goods according to the division of departments, a system in which scattered land is taken for use and scattered construction is carried out, and we should implement a new system of comprehensive urban development under the guidance of the plans of urban development and capital construction. This is an effective means of control.

#### 1. Drawbacks of scattered construction

A city which has taken shape in the prolonged process of the social and economic development is in its proper sense a large integrated, multilayer, and unified system. Its major characteristics should be: concentration, high efficiency and openness to the areas outside it. But owing to various causes, at present, there is the practice of scattered construction, with low efficiency by various

units each doing things in its own way in many cities. This runs counter to the characteristics that cities must have. As a result, it is difficult to give play to the comprehensive efficiency of cities as large systems. This has not only given rise to very serious waste, but also enlarged the scale of our construction and made it impossible to effectively manage urban capital construction. Therefore, correcting the above-mentioned practice becomes an important aspect of the reform in the urban construction system. Major defects caused by scattered construction are:

- 1) In some large and medium-sized cities, often hundreds or even more than 1,000 projects are under construction simultaneously and most of these projects are extrabudgetary ones. This gives rise to very great difficulties in arranging the order and schedules for these projects, the management of the construction work force, the checking of the construction quality and other managerial work related to capital construction; hence, it is very hard for the responsible city departments to effectively control the scale of capital construction.
- 2) Units operate in isolation and build many duplicated facilities of public service (such as auditoriums, cinemas, canteens, nurseries, kindergartens, middle and primary schools, and garages). This has given rise to unnecessary increase in the volume of construction work and caused great waste.
- 3) It is difficult for construction units to find land. Often they fail to find land 1 or 2 years after their capital construction plans were approved and the investment funds become available. It takes 1 or 2 years or even a longer period to pull down the houses and move the people off the land after they acquire it.
- 4) It encourages the unhealthy practice of taking over land. Often several units want to take over the same piece of land of good location and conditions and the competition is very fierce. In some large and medium-sized cities, the expense in taking over 1 mu of farm land in the near suburbs, including subsidies for laborers who are to take other jobs, reaches tens of thousand yuan or even more than 100,000 yuan. This greatly exceeds the criteria for land compensation and job subsidies stipulated in the "Regulations on Land Taken Over for the Construction of the State." Urban land is owned by the state, but some units regarded the idle land in their possession or the foundation of their old houses as their own property and means to earn profits and even asked for one third to half of the area of building in the new houses built on the land or foundation as compensation for the transference of the land or foundation.
- 5) There are construction sites everywhere in cities. The volume of transport of building materials is large and routes are often redundant, increasing the congestion of urban traffic.
- 6) There is a shortage of building materials. The extrabudgetary projects have to find a supply of building materials on their own. This has pushed up the prices of building materials continuously and lengthened the duration of construction. As a result, the projects cannot be put into operation as soon as possible and the economic results of the investment in the projects is very poor.

7) The construction of urban basic facilities is arranged by plans. It is very difficult for construction to meet the needs of the scattered construction projects. This has given rise to serious problems. The urgent needs of some large public construction projects (such as hotels) often burden basic facilities construction departments by widely scattering constructions tasks and thus enlarging construction scale. Owing to shortage of funds and other reasons, however, it is difficult for construction projects to become productive quickly. As a result, many public construction projects cannot be immediately put into operation after their completion.

8) There is the common practice of repeated digging and mending of roads, causing the waste of much funds and materials.

9) In many cities, in spite of the fact that the volume of construction work completed in the more than 30 years since the founding of the PRC exceeds the original area of construction by several times, there has not been much change in their appearance. This is mainly due to scattered construction, which makes it both impossible for the emergence of a few decent-looking streets and hard to implement urban development plans.

10) All construction units, large or small, have to set up capital construction offices and employ full-time workers to be in charge of the work related to capital construction including looking for land, taking it over, providing jobs for the laborers on the land, purchasing building materials and assigning people to design and build the projects. There is much waste of labor in this.

## 2. The practice and experience of the new system of comprehensive urban development

The practice of comprehensive urban development means that under the guidance of city plans and in the light of the arrangement of capital construction plans and the possible conditions, we draw up construction plans for comprehensive development, assign development companies (we can set up diverse kinds of development companies to compete with one another) to take over land in a unified manner, organize construction units to undertake contracted responsibility for construction of urban basic facilities such as water supply, power supply, road, gas supply and steam supply facilities and the construction of various kinds of houses for public use and residential buildings according to the order of "first the underground facilities and then the construction on the ground," and then sell the buildings to the units using them or to the units that deal in property. The development companies can also take over the land in a unified manner, tear down the old buildings on it, move the people away, build the road, water, power, gas, steam and other facilities, level the land, and then fix different rates of rent for different sections of land and rent it for construction purpose to units using the land because urban land belongs to the state, it should not be sold but can only be rented). The units using land should build houses on it on their own in accordance with the requirements of city plans.

It is comparatively easy to conduct comprehensive development and unified construction in building new cities, new industrial and mining areas, small residential areas, and scenic tourist areas and in the economic and technological

development areas in open coastal cities, for there is much idle land in these areas. Construction can begin as soon as there are funds and as soon as the land is taken over. We have made experiments of this kind for many years in some cities and achieved good results. We should gradually enlarge the scope and scale of the experiments in those areas.

As for the transformation of old cities, people differ about whether the method of comprehensive development is feasible. We should admit that there are greater difficulties in carrying out comprehensive development in transforming a district or street in an old city. There are many residents there, the extent of work in pulling down buildings and moving people away is large and the conditions now are very complicated and cannot meet the requirements or urban development plans; therefore, few cities are willing to try.

Since 1983, Anhui Province's Hefei City broke away with the old system and methods of city construction, implemented the new system and method of comprehensive urban development and gained experience in transforming whole streets and areas in its old urban areas. Its experience shows that carrying out comprehensive development in transforming an old city cannot only easily and quickly change the features of a city, but is also convenient for managing capital construction because of centralized and unified construction. Moreover, it can socialize the construction of public service facilities, avoid duplicated construction, and to some extent effectively control the scale of urban capital construction.

The actual methods that Hefei City have adopted in conducting comprehensive development to transform its old urban areas are: As soon as the State Council approved the general program for the development of Hefei City, the city government intensified its efforts to draw up a detailed plan for the construction in the areas to be transformed in the near future and thus promptly provided a basis for the transformation of its old urban areas. In addition, it reiterated: in the scope covered by the urban development plan, all construction units must follow the unified arrangement of the plans and all construction must be carried out in strict accordance with the plans. No unit is allowed to keep land for future construction, turn land owned by the state into that owned by a unit, or pursue "feudal separatist rule" or the construction or "urban manors." Under the guidance of the urban development plans, in a whole street that should be transformed according to the arrangement of its capital construction plan, the work of designing should be carried out in a unified manner (i.e., tenders can be invited for the designing of various projects, but the designing should be carried out in accordance with the requirements of the general design) and construction should be carried out in a unified manner (i.e., construction for projects can be contracted to construction units through inviting their tenders, but the construction should progress in accordance with the general schedule of construction) under the unified management of development companies. By so doing, the city has combined its urban development plan with its capital construction plan and thus not only ensured the implementation of the former, but also enabled the smooth implementation of the latter.

What is the source for development funds? In conducting its comprehensive development, Hefei City has not adopted the previous method of relying entirely



on the state's allocation of funds, but adopted a business method to widely attract funds from the community and regard these as the major source of funds. To gain experience, the city started by making an experiment to transform the western section of Chengjiang Road, the most prosperous commercial street in the city. The original buildings along the section of road are low shacks. In accordance with the transformation plan, all the residential houses had to be pulled down and replaced by two-storey buildings, of which the first floors were used as a shopping area and the second floor as a living space for the original residents of the shacks. The construction expense was to be mainly paid by those who use the shopping area on the first floor for their business. The total investment was 1.8 million yuan, to which the units and individual traders along the street contributed 80 percent. In the 550 meter long transformed section, 3,000 square meters of old houses were pulled down and replaced by 5,000 square meters of new houses, but it took only 80 days to complete the whole process including moving away people and shops, pulling down buildings, building new houses, and moving back people and shops. The economic results are remarkable. From January to September 1984, the total turnover of the shops along this section of road rose by 174.5 percent over the same period in 1983. On the basis of the successful transformation of the western section of Changjiang Road, at the beginning of 1984, the city made an all-round transformation of the northern section of Jinzhai Road, 1 kilometer long, with a total construction area of 158,000 square meters including over 40 multistorey houses and a few high buildings. The city at first adopted the method of raising funds in the society to carry out unified construction and then switched to setting up a development company to raise funds in the society and carry out the construction in a unified manner. Except for a small portion of the new buildings which was used as residential housing areas for those whose former homes were torn down, or which was used for public purpose, all the new buildings were sold as commodities. The costs of the former portion is covered by the prices of the houses sold as commodities. Those who purchase the houses for business had to pay 30 percent of the amount when the contracts of purchases were signed, 40 percent when the principal construction work began, and 25 percent when it was completed. The remainder 5 percent was paid when all the construction work was completed. When the final account for the construction was made and the exact figures of the costs came out, the buyers were to be reimbursed any overpayments or made to pay the balance of the unpaid costs. This solved the problem relating to funds needed by the development company. After the new method was made public, not only the units in the city, but also units owned by the state and collective and individual enterprises inside and outside the province came to invest in the buildings. In conducting their administration and management, the relevant departments in Hefei City strived to provide convenience for the investors. The transformation headquarters provided loans for those who have planned quotas but the amounts of the allocated funds were not enough. The city's development company used its own quotas to carry out the construction beforehand for the units who had the funds but not the quotas. The transformation of the northern section of Jinzhai Road and the Chenghuangmiao area cost over 64 million yuan in all, of which 84.5 percent came from the funds at the disposal of the enterprises, 6.3 percent from township and town enterprises, 4.2 percent from individual households, and only 5 percent was from the state.

The method developed by Hefei City has satisfactorily overcome the difficulty in pulling down old houses and moving away people, a difficulty common for the

transformation of all old urban areas, the principle of "giving back as much housing area as was taken away" was implemented. In other words, the area of new housing allocated for use is roughly equal to the area used in the houses that were pulled down. The units that invested in the construction took no responsibility for the supply of enough housing areas for the residents affected. This matched the demand of the residents in the old urban areas for the improvement of their housing conditions to the state's current economic strength and thus provided a basis for the smooth progress of the transformation. At the same time, in the light of the fact that the population and construction density was not high in its old urban areas, the city stipulated that on principle, all those who had been moved away from the areas could return to live in the areas after the new buildings were completed. Those who moved away earlier could return earlier and live on better floors in the new buildings. Those who did not return to old areas could get a little more housing area; and those who found accommodation during the period of reconstruction were paid a monthly accommodation subsidy of 0.5 yuan per a square meter of the actual housing area that they had lived in before the reconstruction. The city contracted the jobs of tearing down old houses out to the peasants in its suburbs, who in turn were paid in land with things they pulled down, and assigned peasants the responsibility for clearing and leveling the construction sites.

Comprehensive urban development is an aspect of the reform in the management system; we should be conscientious yet prudent in carrying it out. We are of the opinion that the basic experience gained by Hefei City--under the guidance of urban development plan approved by the state and upper-level governments and in the light of the arrangement of the capital construction plan, whose streets and districts of an old city can be transformed one by one by adopting business method and the method of comprehensive development with unified and coordinated management--is of universal significance. Our various areas can refer to this experience but should not copy it.

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CSO: 4006/921

## ECONOMIC MANAGEMENT

### JINGJI GUANLI ON CAPITAL GOODS, PRODUCTION QUOTA

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[Article by Zhang Baohua [1728 0202 5478], Dai Guanlai [2071 0385 0171], and Li Jiqing [2621 2333 1987]: "Countermeasures Against the Sharp Rise in the Price of Capital Goods Outside the Production Quota"--reprinted from WENTI YU YANJIU (PROBLEMS AND STUDY) Issue No. 13, 1985, published by Office of Tianjin City CPC Committee]

[Text] Reform of capital goods prices is an important part of the reform of the price structure of our country. Since the 3d plenary session of the 11th CPC Central Committee, the state has gradually readjusted the prices of fuels and raw materials. In 1984, it further increased the decisionmaking power of enterprises and began to acknowledge to a definite degree the right of enterprises to fix the prices of capital goods outside the production quota, permitting the prices of a portion of them to float within a prescribed range on the basis of prices fixed by the state. In early 1985, the state further liberated the prices of capital goods outside the production quota and permitted the two parties of supply and demand of capital goods outside the production quota to negotiate prices. This important measure has been determined one of the four tasks of price reform. Following the liberation of capital goods prices for industry, a number of new problems have emerged which are worthy of attention. Correct solution of these problems has an important significance in smoothly accomplishing price reform.

#### I. Present State of the Prices of Capital Goods Outside the Production Quota

We shall first study the proportion of total output occupied by capital goods and their price level and proceed further to study the gross level of the major capital goods.

##### 1. The portion of capital goods outside the production quota.

According to computations made from relevant materials, in Shanghai municipality last year the proportion of major capital goods outside the production quota was as high as from 24.3 percent to 48.6 percent; in Tianjin municipality, 17 to 66 percent, of which steel materials, 31 percent; pig iron, 17 percent; timber, 42 percent; and cement, 66 percent.

The planned supply of raw materials to many major enterprises in Shanghai and Tianjin was relatively up to requirement. In other cities, towns, and regions, the proportion of raw materials outside the production quota was the proportion of raw materials outside the production quota was generally higher than in these two cities. For the country as a whole, the portion of major capital goods outside the production quota out of the gross output of capital goods was not lower than 30 percent.

## 2. Prices of capital goods outside the production quota.

Prices of capital goods outside the production quota differ greatly in different parts of the country. In general, they are higher in the north and lower in the south, and higher in the countryside and lower in the cities and towns. For example, in the first 10-day period of March last year, the prices of round steel bars 6.5 mm in diameter were as follows: Tianjin, 1,400 yuan per ton; Wuhan, 1,300 yuan per ton; Xiamen, 1,500 yuan per ton; Nanjing, 1,683 yuan per ton; and Guangzhou, 1,900 yuan per ton. In markets of the initial grade, prices of major capital goods outside the production quota in the various large cities and towns are generally higher than the prices of the same kinds of capital goods allocated by the state by 166 to 283 percent. They are even higher in the medium-sized and small cities and towns and in the countryside in the southern part of the country.

## 3. The gross level of prices of capital goods.

If calculation is made on the basis of the portion of capital goods outside the production quota being 30 percent of the whole and its prices being 200 percent of those allocated by the state, it is found that at present the general price level of the major capital goods has risen by 30 percent compared with the initial period of the price reform. This is a new situation never seen before in our country's history and should attract our great attention.

## II. Consequences of the Large-Scale Rise of the General Price Level of Capital Goods

The large-scale rise of the prices of capital goods outside the production quota will cause many infurious effects on the national economy:

1. Under the current uncoordinated condition of the taxation measures, the large-scale rise of capital goods prices will bring many difficulties to macroeconomic control. A large-scale rise in capital goods prices brings about, to a definite extent, loss of control over general demand. Under the conditions of the excessive issuance of banknotes in our country in 1984, the circulation areas were flooded with banknotes; at the same time, the scale of capital construction was too large. All this has brought about a situation of supply of capital goods lagging behind demand. This contradiction between supply and demand is the internal cause for the rise in capital goods prices. Following the rise in price of



certain capital goods, prices of other capital goods likewise tend to follow, with the result that an all-round rise in the prices of capital goods inevitably follows. This in turn causes the various user units to increase their capital construction investments and their loans for circulating funds and the inevitable result is a further increase in the issuance of banknotes. Under the current condition of a sharp rise in capital goods prices, prices of consumer goods -- that is, goods of subsistence -- will face the pressure of rising. Of the receipts of production enterprises of the first category which generally deal in high-priced capital goods, a large portion, through the process of profit distribution, is converted into group purchasing power and individual consumption funds, directly invading the consumption market. In the case of large enterprises owned by the whole people that produce various kinds of mining products and energy products, the proportion of whose products within the production quota is rather large and the proportion of whose products entering the general markets is relatively small, the extent of the rise in their prices is small. On the other hand, the prices of capital goods that are intermediary products, such as steel plates and wire rods, rise rather sharply and in turn stimulate expanded reproduction of the intermediate products. At the same time, since the recovery period of investments in the extractive industry is long and amount of investments usually large, ordinary enterprises are not equal to the task and this necessarily restricts the development of the energy and basic raw materials industries. Thus, following the liberalizing of prices of capital goods outside the production quota, the contradiction between the production structure of initial-grade products of the first category and intermediary products is aggravated and the state of stringency and scarcity of energy and basic raw materials throughout economic life is intensified.

2. The large-scale rise in capital goods prices increases the user units' cost of production, expense outlay, and capital construction disbursements. First of all, it increases the cost of production of the processing and consumer goods industries. In the cost of production of our country's processing and consumer goods industries, the proportion of the outlay for raw materials is very high. As shown in statistical materials for the whole country, the cost of the outlay for materials such as raw materials and fuels account for roughly 75 percent of the total cost of production. Thus, in the case of enterprises engaging principally in the processing trade and consumer goods production departments, if calculation is made on the basis of the cost of raw materials and fuels accounting for 70 percent of the cost of production and if the general price level of capital goods has risen by 30 percent over the first part of 1984, then the cost of production of the enterprises will rise by 21 percent over the first part of 1984. The enterprises concerned will find such heavy pressure unbearable. This pressure can be weakened or covered up through the current bartering method adopted by many enterprises to obtain raw materials at a cheap price. Moreover, in the early part of last year, many enterprises were still using raw materials and fuels procured in 1984 and thus the extent of the price changes was still not obvious and the rise in the cost of production did not

reach the above-mentioned level. But, following the capital goods outside the production quota being freely offered in the market and their prices being liberalized, and the regressive barter method being gradually eliminated by currency circulation, the state of the rise of capital goods prices will become general. This will in turn exert immense pressure, causing a rise in the cost of production of the processing industries. From January to April last year, the general cost of production of comparable products of industrial enterprises listed in the national budget already showed a 4-percent rise over the same period of the preceding year and no exception was found throughout the provinces and cities of the whole country. This attests to the immense effects of the rise of capital goods prices on the production of the processing and consumer goods industries. Seen from the condition reflected from various regions, at present, the prices of many industrial products have been forced to rise. This represents an important restrictive factor on the reform in recent years. Furthermore, following the rise in capital goods prices, the outlay for capital construction expenses will naturally rise. For example, principally due to the rise in the prices of raw materials and other materials, construction price per-square-meter of urban residential buildings has risen from 200 yuan to 300 to 600 yuan. At present, in provincial first-grade capital construction, the regions mostly procure their own construction materials. With the rise of prices of raw materials outside the production quota, investments required for completion of the same capital construction project now will naturally be much larger than previously.

3. The large-scale rise of capital goods prices affects fiscal revenues. First, it reduces the fiscal revenues of cities and towns that rely principally on the processing industries. Take Tianjin, for example. In 1984, its various taxation receipts increased by 12.9 percent over the preceding year, but the revenues derived from industrial enterprises dropped by 12.4 percent. Second, it tends to increase fiscal disbursements. In 1983, in Tianjin municipality, due to the rise of capital goods prices, its expenditures registered a net increase of 104 million yuan and in 1984 the net increase was 279 million yuan.

4. The large-scale rise of the prices of capital goods outside the production quota interferes with the fulfillment of the planned tasks and the stability of the planned prices. As a result of the rise of the prices of capital goods such as raw materials and others, many enterprises have been unable to adhere to the planned prices and cannot but reduce production within the assigned quota and expand production outside the quota in order to compensate for the losses incurred on account of the rise in prices. Originally, it was thought that these two types of prices would be beneficial to production within the quota and stabilize the planned prices, but the actual condition was not like this. The output within the production quota of the electrodes used by the Tianjin steel plant has daily shrunk in volume, but its output outside the production quota has increased daily. The fundamental cause for this was the rise in the price of the ingredient graphite as a result of which the price of electrodes rose from 1,900 yuan a ton to

3,000 to 6,000 yuan a ton. It is worthy to note that many enterprises have refused to make delivery of orders in accordance with the agreement, have deliberately stalled on delivering the goods, or raised the price in disguise. This is not necessarily because the prices under the plan are unreasonable but mainly because a big profit can be derived from the prices of products outside the production quota. In the 1st quarter of last year, the situation of enterprises under the system of unified distribution or assignment by the state stalling on contracted deliveries of major raw materials and fuels was much more serious than in the preceding 2 years. This illustrates that the large-scale rise of the prices of capital goods outside the production quota interferes with the fulfillment of the state plan.

5. A large-scale rise in the prices of capital goods outside the production quota is not beneficial to improving the economic benefits of the enterprises. Because capital goods outside the production quota command high prices and large profits, enterprises are able to increase their earnings without lowering the cost of production by simply resorting to enlarging the output outside the production quota. At present, the profit rate of sales realized by our country's industrial enterprises is generally between 10 to 20 percent, while the profit rate of certain initial-grade products is even lower and their economic benefits are limited. But with the raising of product prices, profits can be greatly increased, even doubled. Many enterprises use this precise method and bring about the abnormal phenomenon of a rise in the cost of production of products accompanied by a large-scale increase in profits.

In short, liberalizing the prices of capital goods outside of the production quota on the one hand plans an active role in promoting production and invigorating the economy while, on the other hand, due to the large-scale rise of prices, many new problems will be met within macroeconomic balancing and in various other areas.

### III. Countermeasures for Solution of These Problems

In reforming capital goods prices, it is necessary not only to solve the irrational contradiction between the price relations of products of the raw materials industry and products of the processing industry but also the contradiction between the new and old economic structures, the contradiction between the prolonged insufficient supply and the sustained rise in the demand for capital goods, and the contradiction between the price reform of capital goods and the price reform of other products. These objectively existing contradictions cannot be avoided in our study of the countermeasures. Regarding the current situation, in order to solve the problems that will arise following the large-scale rise of capital goods prices, we may adopt the following countermeasures:

1. In solving the price parity relations between products of the raw materials industry and the processing industry, measures must be taken to prevent a price rise in the processing industry and in consumer goods. At the start of price reform, control of the general level of retail prices

is an important condition to ensure victory in the first battle. Under the conditions of a large-scale and abnormal rise of capital goods prices, in the past 1 to 2 years, the prices of products of the processing industry (including retail prices of consumer goods) have been affronted with the pressure of rising. As for the method of solution, aside from effecting protectional measures such as tax exemption and granting subsidies to enterprises that produce goods the supply of which generally lags behind demand and that are currently suffering from deficits, the more important measures are changing the product structure, the raw materials structure, and the industry and trade structure, and also changing the old production artcraft. Changing the product structure is changing low-grade products into high-grade products and old products into new products so as to improve the value, increase profits, and avoid losses. Changing the raw materials structure is using newly-rising materials in lieu of traditional materials, using local materials to replace materials from the outside, and using low-priced materials to take the place of high-priced materials. Changing the industry and trade structure is developing products and industries and trades of low consumption of materials, high efficiency and high level.

2. In the price reform of capital goods, it is necessary to strengthen the comprehensive use of economic levers and to create a good market environment. When facing a steady rise in the price of capital goods, it is necessary to adopt a series of macroeconomic control measures, carry out regulation, without effecting the price, of the gross demand and gross supply, and then microeconomically make the prices of various commodities gradually approach their value. This appears especially important at present. Take for example the control of the scale of capital construction. Due to our country's relatively lax control over the capital construction plan, the state is unable to control the gross amount of the whole capital construction funds including self-raised funds of the localities and the enterprises and is also unable to control the gross demand for materials. Hence, this is a plan with a gap in which the funds are, by inborn nature, larger than the material resources. To make up for this deficiency, we can adopt the method of controlling the gross volume of loans and raising the rate of the building tax. At the same time, in view of the fact that following the rise in capital goods prices the self-owned funds of the enterprises will increase, the state may adopt the countermeasure of collecting a special levy on high-priced capital goods that can yield relatively more profit. This will reduce the amount of self-owned funds of the enterprises. By means of the three measures of controlling the gross amount of loans, raising the construction tax rate, and instituting a special levy on high-priced capital goods, it will be possible to control the scale of capital construction and its excessive demand for capital goods. In addition, the state should energetically stimulate the production of "short-line" capital goods -- that is, capital goods in short supply. It may also enforce such measures as selling high-interest-bearing energy and communications bonds, thus absorbing the funds of the enterprises to the extractive, metal, and metallurgical industries and to the construction of communication facilities. Interest payments on the bonds may be made from collections of the construction tax



or the special levy on high-priced capital goods. The special levy on high-priced capital goods may also be used to develop production of capital goods that are in short supply. By means of foreign trade, the state may centralize purchases of capital goods in short supply.

Generally speaking, under the conditions of the existence of a prolonged and large demand for capital goods in the market, the state should employ a series of economic levers with finance as the principal factor and currency as the subsidiary factor to control the demand for capital goods, increase the supply of capital goods, and create a market environment featuring a fundamental balancing of supply and demand.

3. It is necessary rigidly to control the over-conversion of enterprises' self-owned funds into consumption funds. Following a large-scale rise in capital goods prices, if the enterprises producing these goods should be allowed to adopt the method of linking salaries and wages to profits, consumption funds would increase along with the rise in capital goods prices. Thus, it is necessary to enforce the system of taxing awards and also enforce the wages regulation tax, so as to avoid the excessive transformation of production funds to consumption funds and thus the stimulation to the consumer goods market.

4. In regard to the price reform of capital goods, the method of acting "once and for all" cannot be applied. Rather, a form of reform which varies with time and circumstances should be resorted to. Price reform of capital goods can copy the method of the reform of grain prices and fix mixed-proportionate prices; that is, enforcing state fixed price and negotiation price according to fixed ratios of output. By means of fixed ratios, the state can accomplish the objective of controlling the price level of capital goods. The method of reform of coal prices can also be copied according to which the planned based figure is rigidly fixed and the departments in charge exercise rigid control over it to ensure its fulfillment. The portion of surplus production is all considered as products outside the production quota and the prices are wholly liberalized. The method of reform of pig prices may also be copied, and subject certain capital goods to guidance prices that are wholly liberalized. In addition, a lesson may be learned from the method applied to enlivening the prices of "long-line" products -- that is, goods that are in full or excessive supply, that suffer from stagnant sales -- liberalizing the prices and letting them float downward, while for prices of "short-line" products in short supply the method of imposing a price limit and control of price movement may be enforced.

In short, reform of capital goods prices may adopt diversified forms and it is not necessary that the prices of all industrial capital goods outside of the production quota must be opened up and give way to consultation prices. Regarding the prices of products outside the production quota that have already been opened up, the extent of their variations must be regulated and they should not be allowed to follow their own course or development. Only by so doing is it beneficial to the thorough execution of the guideline of integration of opening up and regulation and advancing in small steps and is also beneficial to the control of the general level of commodity prices.

ECONOMIC MANAGEMENT

JINGJI GUANLI ON ESTABLISHING INFORMATION BANK

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[Article by Xiong Guosheng [3574 0948 0524]: "An Initial Probe Into the Establishment of An Information Bank"--edited by Lin Daojun [2651 6670 0689]

[Text] The setting down of goals in the management of the national economy and the implementation of policies and plans must be based on information. Establishing an effective national economic management information system is an important condition for raising the management level. This article aims to take a preliminary look at the establishment of a socialist information bank.

I. The Current Situation and Problems in Our Nation's Information Work

Scientific national economic management requires the establishment of a unified, highly selective, an interlinked information system to provide the various management organs and enterprise sectors with correct and dependable information in a timely way. How a nation's information system is organized, the effectiveness of its work, and its handling methods are important reflections of the level of national economic management. In this respect, when our nation is compared with the capitalist nations, there are very great differences.

Our nation's present information management system is far from able to meet the needs of national economic management. A management information system which is based on manual labor does not have the capacity to handle the vast amounts of information in a modern economy and has difficulty in carrying out large volumes of correct analytical calculations. Thus it often occurs that information provided is not timely and is not accurate. Delays occur in the transfer and handling of information, with the result that some regions, enterprises, and individuals waste labor, funds, and materials because information is not available or not accurate. This exacerbates the contradictions between production and sales and between industry and commerce. It is true that many factors have contributed to this situation, but the main ones are the purpose of the management information system and policy factors.

First, the leadership does not give this sufficient attention. Even now, many leaders do not give sufficient attention to the importance of information. This is a major reason for the lack of enthusiasm of information departments.

Second, the sources of information funds are too tight. The proportion of funds allocated by the state each year for information development is too small. About 60 percent of the information organizations do not have computers or computerized conveyance set-ups. Thus information transfer is primitive and backward, which results in much useful information becoming outdated and ceasing to be useful.

Third, seen in terms of the present situation of our nation's information work, information departments have many different leaders, giving rise to both departmental and regional leadership. Each has its own set-up, and they cannot form an integral system. They pay too much attention to vertical microeconomic information and pay little attention to grasping horizontal macroeconomic information. This results in the horizontal development, transfer, and use of information being insufficient. For example, the information relationships between provinces, between departments, and between enterprises are insufficient and they cannot be well coordinated. Thus the role of information is not great and information feed back is not timely.

In addition, our nation's information work is greatly unbalanced, planning is not complete, and the phenomena of "empty regions" and duplicated labor exist.

A socialist economy is a planned commodity economy. Following the development of our nation's commodity economy, the socialist division of work will become increasingly specialized and mental labor factors (including the investigation, collection, management, verification and provision of information), will play an increasingly important role in production and become the key to economic development. The time has arrived when we must establish a system of management information organs.

## II. The Feasibility of Establishing An Information Bank

The feasibility of establishing an information bank is manifested mainly in the following aspects:

1. The bank structures are complete and spread throughout the nation in urban and rural areas and are thus able to collect all information materials and quickly transfer them.
2. The state banks have a high reputation in the society and the relationship between banks and other units is extremely close. Thus they understand the economic situation well. This is the most beneficial condition for establishing an information bank.
3. Banks have been involved in information for 5 to 6 years and have already trained a large number of information personnel, and an information exchange

network involving focal cities and key cities has already been formed. The central offices, provincial offices, and branch offices in counties and cities have all appointed specialized information staff or staff who are engaged in both information and other work. Some have even established regular or periodic publications. Definite experience has thus been accumulated.

4. Banks are the general sluice-gates for controlling money circulation and the overall pivots of national financial activities. They are also the bonds linking all the sectors of the national economy, and they control the various economic levers such as credit, interest rates, foreign exchange, and account-settling. Their business activities touch on production, exchange, circulation, distribution, and similar areas, and are related to the economic links of production, supply, marketing, storage, and transport. Changes in the national economy, no matter how small, can be keenly reflected in the banks, as if they were a mirror. These characteristics are not found in other departments and the functions either cannot be carried out or cannot be carried out completely by other departments.

### III. The Plan for Establishing a Socialist Information Bank

In order to strengthen the use, development, and transfer of information, we should use the banks' beneficial conditions in terms of economic measures, credit, and funds to develop a management information system. By proceeding from this base, the state will be able to establish a specialized information bank and use the banks' "sharp hearing," "long hands," detached position, and other characteristics to strengthen information service. It can be predicted that the establishment of an information bank will promote swift development of the national economy. It will unite strengths, funds, and goals, centralize dispersed information into a unified whole, and achieve a breakthrough at a fairly high level.

In establishing an information bank, we should adhere to the following principles:

First, we must have clear aims and must deeply study the needs of management in terms of information. Second, reflecting information on national economic activities should be combined with the reflection of enterprise economic activities. Third, it is necessary to have systems and standards so as to guarantee the veracity and accuracy of the information. Fourth, the information bank must accord with the needs of modern management.

After the information bank is established, appropriate policies and methods in regard to the concept, scope, degree of correctness, and degree of secrecy of information should be drafted. My general ideas on setting up an information bank are as follows:

1. The setting up of organs: In accordance with the personal interest shown by the Central Committee leaders and the requirement that those in charge of specific work grasp information, there should be established, in the same way as specialized banks are established and under the leadership of the State Council and the Central Bank, a structure including a head office, branch



offices, sub-branch offices, agencies, and service points. The advantages of this are: 1) It will be possible at any time to consult the relevant materials of the various specialized banks and the various enterprises, and thus it will be possible to give the central leaders good advice. 2) It will be possible to closely coordinate with the various specialized banks and will also avoid the situation where the specialized banks see information work as an added burden. 3) It will be of assistance to investment in key projects and the development of the information industry. This will allow the information industry's computers and the communications facilities to be linked.

2. The personnel structure: In our nation, the scope of the demand for information is growing increasingly broad. Not only do rural areas and urban areas need it, but every enterprise on the industrial, commercial and technological fronts needs it. Thus, the skilled personnel needed by our information bank need to be multifaceted. They must have good political achievements and noble moral sentiments.

They must also have the ambition to start undertakings, be rich in their knowledge of natural and social sciences, and have definite operational management abilities. In this way it will be possible to achieve the process by which information A combined with knowledge becomes information B; that is, when a piece of information input is subjected to knowledge and other information, it becomes new information for output. In other words, the information bank should be comprised of specialists, scholars, engineers, and technicians (including specialized personnel in both the natural and social sciences). This will benefit the collection and arrangement of specialized information (including information on the development trends in specialties abroad) and will result in the bank truly playing a role as an "advisory department."

3. The scope of work: The work of the information bank should include all businesses and enterprises. It should serve all businesses and all enterprises. For example, if an enterprise in Hunan wants to know the situation of an enterprises in Heilongjiang, it will investigate it by having the local information bank make contact with the information bank in Heilongjiang. If a certain enterprises has applied for credit from a specialized bank, and there is the need for an information bank feasibility investigation report (which would include economic benefits, the degree of advancement of equipment to be imported, and so on), then such a report can be issued. If the information bank shows that something is clearly feasible, then the specialized bank will have to supply credit. It will not be permitted to refuse credit on any pretext. This will change the present situation where credit personnel do the feasibility investigation despite a lack of other specialized knowledge, and thus avoid problems such as credit being wasted.

4. The deployment of facilities: The accuracy, veracity, and effectiveness of information is determined to a large degree by information technology. If there is not good communications technology, then there will be no way to compete with foreign countries. In facing the "information explosion," the information bank must have the assistance of calculating systems and computers. Only if it has the advantages of great storage capacity, fast search and recall, and analytical applications will it be possible to correctly

reflect the situation, assist the decision makers in understanding the situation, and supply decision makers with useful decision making materials. The flexibility of information handled by the information bank will be very great and it will always be waiting to be dispatched. Once the transmission and exchange targets are found, the bank will be able to immediately respond and, after handling and conversion into information energy, the information can be speeded in all directions. It will be able to quickly change and adjust itself in accordance with the situation to achieve new leaps in its operational processes.

The service tasks of the information bank should be as follows:

First, automatically selecting and verifying the information which comes from the system's information stores (including technological, nontechnological, and commercial information). Second, automatically noting, appraising, and extrapolating trends, studying past experience, and drawing up a comprehensive systematization of these experiences. Third, automatically appraising and drawing inferences from data and materials, constantly comparing future possibilities and the changing current situation, and circulating notices on the necessity of intervention when deviations occur. Fourth, carrying out research so as to ascertain and investigate those plans which can be realized. Fifth, carrying out analyses of the various expenditure-income and consumption-efficiency plans, revising income structures, and, in accordance with the changing peripheral conditions, applying them. Sixth, regularly investigating the sum total of stipulated targets (the principles of the targets and the strategies and tactics by which they are to be achieved) so as to discover the various changes which may occur. Seventh, in the situation where systematic development is uneven, modifying interrelated coefficients or centralizing the changes occurring. Eighth, changing standards in accordance with the best possibilities (for example, appropriate decision making in regard to investment in scientific research projects when changes occur in the funds situation) and arranging priorities and different levels for projects. Ninth, researching the feedback efficiency and feedback curves at different levels. Finally, formulating fairly simple strategies.

5. As information enters society, it should, in the same way as other commodities, be exchanged in accordance with the principle of exchange at equal value. The setting of its price should in theory be done on the basis of the social profit which can be obtained from the information and should be compensated at full value. Only in this way will the information bank be able to maintain and expand the fine information cycle realized, will it not require state subsidies, will it be able to reduce the burden on the people, and will it be able to hand over profits to the state.

6. The linking of responsibilities, rights, and interests will be achieved. The information bank should take on economic responsibility for all the information it provides. If an enterprise obtains information from the information bank and, in practice, errors and mistakes occur as a result of

the information, giving rise to losses by the enterprise, then the information bank will have to take on the responsibility and compensate the enterprise for its losses. If the information bank supplies information which is not correct, and if this results in great losses for the state or has international repercussions, the information bank will have to take legal responsibility.

Thus, in order for the information bank to develop its work normally, the state should formulate appropriate policies and laws to raise the information banks' authority.

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## ECONOMIC MANAGEMENT

### EFFECTIVE USE OF ENTERPRISE CAPITAL ENCOURAGED

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[Article by Yang Jirui [2799 4949 3843]: "How Should Banks and Credit Associations Guide Township Enterprises in the Effective Utilization of Capital?" -- Edited by Pan Shudeng [3382 6615 3397]

[Text] In recent years, town and township enterprises in our country have grown and prospered, displaying great vitality and becoming an important pillar in support of the rural economy. However, we should clearly recognize that if the momentum of the development of town and township enterprises becomes too great, and the scale of their development too large for the financial and material power and credit and loan funds for the localities to cope with, then the situation would be like one of a lone army force penetrating deep into the enemy's territory. In the end, not only would they fail to consolidate their positions or foundations of development but also the entire economic situation would be adversely affected, and the shortage of the means of production, inflation of consumption funds, rise of commodity prices, and loss of control over credits and loans would be aggravated. In turn, this would be injurious to the reform of the economic structure and the smooth operation of the national economy. Hence, it is absolutely necessary and extremely beneficial, to carefully control the scale of town and township enterprises' loans in accordance with the macroeconomic demands of the state.

At present on the macroeconomic side, it is necessary to continue to insist on controlling the scale of town and township enterprises' loans, keeping them within the limits of the state's credit and loan plan. Under the fixed pre-condition of this general theme, on the microeconomic side we should stress the effective use of funds and promote the healthy development of town and township enterprises. Development of town and township enterprises is closely related to the commodity economy, while bank credits and loans represent a form of capital operation at a developed stage of the commodity economy. In the course of commodity production and commodity exchange, it is generally feasible that a portion of capital funds lies idle, and becomes "dead money." This indicates that in the course of reproduction a corresponding amount of material resources has been stockpiled. Turning "dead money" into "live money" through the form of credits and loans signifies that "dead" things have been changed into "living" things and put into production and circulation. If only



stringent macroeconomic control is emphasized, and the effective microeconomic use of capital funds is overlooked, the normal development of town and township enterprises production will be impeded. This may even develop into town and township enterprises withering, which in turn will affect the source of credit and loan funds. Following the development of town and township enterprises, it is natural that the amount of certain enterprises' idle funds, and the amount of funds demanded by certain other enterprises, will increase correspondingly. It will then become increasingly important: To merge the funds through credits and loans; to grant loans but insist on their repayment; to have one party borrow funds and another party repay loans; to effect the continuous turnover of funds; and to use a small amount of funds to accomplish many purposes. The viewpoint which states that the less loans made to towns and township enterprises the better is just a reflection of petty rural economy ideology. This is because the production of town and township enterprises is neither self-sufficient production nor is it the repetition of simple reproduction. It is expanded reproduction. The funds they need in production must also come from the support granted by the state in the form of credits and loans, although the main source is their own accumulated funds. Hence, when we stress the need to control the scale of credits and loans, and for tight control of credit and loan funds, we should guard against being excessive or overdoing it. We should integrate stringent macroeconomic control with effective microeconomic use of funds, put limited funds to maximum use and accomplish the objective of "invigorating while tightening control and effective utilization of limited funds."

At present, in the development of town and township enterprises, the most outstanding contradiction is the lack or shortage of funds. For example, in Sichuan Province, the town and township enterprises after scaling down the number of capital construction projects, retained some 5,978 projects in which construction had already started. These projects required a total investment of 1.69 billion yuan of which 0.96 billion yuan had to be financed by loans, but only 0.38 billion yuan of loan funds was available. Some town and township enterprises met with difficulties in the turnover of loan funds. Many old enterprises which had shown good economic results found that they were short of the circulating funds they normally needed. Some paper mills lacked funds to buy wheat plant stalks while some silk filatures did not have the money to purchase cocoons. Some enterprises were forced into borrowing money at high interest rates because of the urgent need for funds. Some offered shares in their enterprises to outsiders at low prices. Some resorted to paying high interest rates to induce enterprises and individuals to withdraw deposits from banks and credit associations, in order to provide them with funds.

The principal causes of the lack of shortage of funds in town and township enterprises may be traced to the following: On the one hand, in recent years, town and township enterprises have assumed many undertakings and over-extended their capital construction front; many of them have failed to replenish depleted circulating funds in the course of their development. Their own funds are frequently below the minimum amount required by the

banks for the granting of loans. Some enterprises have been relying on bank loans to keep going. Consequently, since the state asserted appropriate control over the scale of credits and loans, certain enterprises have found it difficult to continue operation. Moreover, the management of many enterprises was poor. There were too many outstanding accounts to be collected while large stocks of unmarketable goods were piling up in warehouses. As a result, the limited funds available could not be made to perform their role properly. On the other hand, some localities employed classified methods to control the scale of town and township enterprise loans, such as by using the method of only calling in loans and refusing to grant any new loans.

In my opinion, when controlling the granting of loans to town and township enterprises, we must strive to achieve a suitable degree of latitude, treat the parties concerned differently, support those that should be supported and restrict those that should be restricted. By no means should we take matters lightly or handle matters with a "universal sameness." Town and township enterprises should be classified and given different priorities so that there is an assurance that the major projects will be cared for while attention will also be given to the rank-and-file. Loans should be granted to good and deserving projects.

Town and township enterprises should endeavor to realize the transition from expanded reproduction principally by extension to expanded reproduction principally by intension. Planned new construction projects should each go through the process of a feasibility examination. Those that should start construction should go ahead while those which should be deferred should have their construction deferred. With regard to projects on which construction has started on a small scale, but which require huge investments, are slow in producing results and turn out unmarketable goods, construction should stop or their construction should be reshaped for other purposes. As for projects on which construction has already progressed over half way, which do not require large investments, whose products are marketable, and which can produce good economic results, these should be fully supported so that they may be speedily completed and put into operation. Enterprises which have been basically completed for operation, and which still lack a small amount of circulating funds, should be helped with funds so that they may go into normal production and display their economic effects. With regard to the direction of investments, town and township enterprises should be helped in the following respects: Suiting measures to local conditions; while establishing themselves locally, also catering to internal and external markets; and developing the food and feed processing, aquatics breeding and processing, building materials, and small energy industries. In addition, they should be assisted in developing tertiary industry so as to help overcome the shortage of restaurants, hotels, repair and transport services. We should prevent town and township enterprises from indulging in such practices as using loan funds in lieu of their own funds to expand the investment scale, or using circulating funds to arrange for investments first and following up by seeking bank loans to cover up the circulating funds expended. In the case of town and

township enterprises which have incurred serious deficits for a prolonged period and have been relying on bank loans to keep going, the relevant departments should guide them to change to other lines of production, and the banks themselves should promptly call in the loans made to them. At the same time, agricultural banks and credit associations should adopt diversified and flexible methods of granting loans such as developing loans with full guarantee of repayment, loans against security deposits, and so forth.

In guiding town and township enterprises to make good use of funds, banks and credit associations should correctly handle the relationship between service and supervision, and make the enterprises turn their sights inward to seek funds from business operations and management. Banks and credit associations should rectify their past error in granting loans of "stressing granting but overlooking control." They should change from passively granting loans to actively helping town and township enterprises to examine their loan projects, fixing loans on the basis of sales and in accordance with the funds realized from sales, and incorporating an element of supervision in their services so that loans are properly justified. Agricultural banks should station credit personnel in the departments in charge of town and township enterprises, promptly reflect conditions to the relevant departments, and offer suggestions to solve problems. Agricultural banks and credit associations should actively help town and township enterprises to: Tap the potential of funds; improve their operation and management; set up a sound and healthy financial and economic system; and do a good job of profit distribution. We should be careful to fill up the various special funds first before using them. In using them, sufficient leeway must be left and we must always guard against "using funds in advance." From the after-tax profits a definite proportion should be taken out to serve as circulating funds so that eventually the self-provided circulating funds should be over 30 percent of the whole. Agricultural banks and credit associations should assist town and township enterprises to check their assets, reduce their idle funds, handle stagnant and accumulated stocks of goods properly, promptly collect the various kinds of accounts receivable and generally reduce the "sedimentation" of funds.

It is necessary to actively call in irrational loans and loans that have passed their due dates, and enliven, or restore to life, "sedimented" funds. The granting and calling in of loans illustrates the relationship between antithesis and union. Only when there are loans can there be the calling in of loans, and only through calling in loans is it possible to grant further loans.

If loans are rationally granted and the due effects have been attained, then the ground has been laid for calling in loans. Tightly controlling the work of calling in loans and fully calling in loans that should be called in, makes it possible to have sufficient funds in store to do a good job of granting loans in the next round. Hence, granting loans properly is the foundation for calling in loans smoothly and performing the job of calling in loans properly is a precondition to doing a good job in granting loans. For a long period of time in the credit and loan work of town and

township enterprises, there has been a general tendency to offer a string of reasons when seeking loans but when it comes to the repayment of loans there seems to be hesitation on all sides. This is incorrect. Banks should: Clearly establish the ability of town and township enterprises to repay loans; know their cash position clearly; and have a concrete idea of the amount of loan repayment, the repayment time and the source of funds for the purpose, so that they may promptly call in loans that are overdue or irrational. This will increase their existing credit and loan funds.

It is necessary to vigorously grasp savings in the rural villages, thus enlarging the source of credit and loan funds. Seen from the viewpoint of long-range development, the major and most basic source of credit and loan funds is in a continuous increase in the amount of deposits. Marx has already pointed out: If small amounts of funds are "joined together to form a big sum, a strong currency force is formed. These activities of joining together small amount of funds are the special role of banking institution."....."from a bank's standpoint, deposits are of the most important significance from beginning to end." (Collected Works of Marx," Vol 25, p 454) Following the development of the rural commodity economy, the potential savings of rural collectives and individuals are continuously increasing. Banks and credit associations should improve their service attitude, increase the categories of savings, vigorously initiate such services as trust deposits, insurance, bills discounting, and so forth, increase and widen their savings network, greatly absorb deposits from individuals and transform consumption funds into accumulation funds. This also represents an important condition in keeping the scale of credits and loans under control, making effective use of funds, and developing town and township enterprises.

Finally, banks and credit associations should actively support and correctly guide fund raising in rural society. Raising funds in rural society is a necessary supplement to the credits and loans of socialist banks. Development of rural fund raising within an appropriate scale is beneficial to the lateral flow of funds in the localities and between the enterprises. It enables town and township enterprises to readjust the direction and scale of their production more flexibly. Raising funds at various levels in the rural villages is an important road to controlling the scale of town and township enterprise loans and easing the stringent state of funds. It is also an important road to converting a portion of the consumption funds into funds for production and construction. Nevertheless, at present the problem which must be mentioned is that, to a certain degree, fund raising in rural society weakens the leverage role of credit and loans, and tends to encourage town and township enterprises to invest blindly and to make redundant investments. Hence, the volume and scale of fund raising in the countryside must be appropriate. Rural banks and credit associations should give correct guidance for the raising of funds in rural society. It is suggested that trust departments of county rural banks take charge of raising relatively large amounts of funds entrusted by the fund raising units. After the trust department of a county rural bank has studied project feasibility, and following approval by the relevant county department, and



after the project has been reported to superior bank for reference, share certificates and bonds may be issued to raise funds for use by applicant units. To tally with this, it is necessary to formulate the rules for raising funds, and designate the amount of shares and bonds to be issued, their denomination, repayment or redemption date, rate of interest, dividend payment, as well as provisions relating to the transfer of shares and bonds. In addition, legal protection must be provided. Thus, to meld the social credit form of rural fund raising into bank credit helps to appropriately control the direction of fund raising by town and township enterprises and in controlling fund raising within a definite scope.

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## ECONOMIC MANAGEMENT

### TOWNSHIP INDUSTRY SEEN CONTRIBUTING TO ECONOMIC DEVELOPMENT

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[Article by Zhou Yaozhong [0719 5069 0022]: Zhu Huaming [2612 5478 2494], and Pan Shui [3382 3055]: "In The Development of Township Industry, Trade Must Be Given Priority" -- edited by Lin Daojun [2651 66670 0689]

[Text] In the last few years, township industry has developed very quickly throughout the nation. In the new situation of reform, opening up and enlivening, everyone is concerned with the problem of how township industry is to move forward and make new contributions to development of the national economy. Here, we will discuss some of our views:

1. The development of township industry will enable the rural areas to break through the self-sufficient or semi-self-sufficient natural economy and enter a new period of large-scale development of commodity production. The 1984 Document No. 1 of the CPC Central Committee pointed out: "The change from a self-sufficient or semi-self-sufficient economy to quite large-scale commodity production is an inevitable course which cannot be bypassed in developing our nation's socialist rural economy." In the past, because of the influence of the "leftist" line and the fetters of traditional concepts, we often saw township industry following a tortuous course. For a long time these economies had been solely agricultural, which violated the objective laws of rural economic development, with the result that in villages normally rich in fish and grain, it was difficult to find fish, in high-production areas poor teams emerged and it was very difficult to change the appearance of the rural areas. In the last few years, with the guidance of the Central Committee's policies, the vast number of peasants have, under the leadership of party committees and governments at various levels, gone through repeated practice, continually explored and charged along the new road on which with one hand they grasp agricultural production, while with the other hand they arrange township industry. They have broken away from the predicament of having a unitary agricultural economy, and taken a new road of comprehensive development of agriculture, sideline products, and industry. This has brought a new situation to the rural economy. In areas where township industry is developing quite quickly, the concept of "three industry" comprehensive operations has been broken through and they have commenced "ten industry" comprehensive development, involving agriculture, forestry, animal-raising, sideline products and fishing, as well as industry, commerce, construction, transport and services. Township industry can, with its own special vigor, play a dynamic role on the wide stage of commodity production.

2. The development of township industry can avoid the serious effects of pernicious inflation which occurs in cities and charge along the new road of transferring surplus rural labor on the spot. China has a population of 1 billion people, 800 million of whom are peasants. Making good arrangements for the peasants is an extremely important matter. Following the continued raising of the level of agricultural modernization, our nation's contradiction of a large population and small amount of arable land has become daily more acute, and the surplus labor in the rural areas has continually increased. What is to be done? There are four avenues from which to choose. 1) Let the peasants go bankrupt and then have them enter the cities to seek a living. This is the painful capitalist road and one we cannot travel. 2) Bundle the peasants onto a small piece of land and let them do their best with it. The experiences of our nation over 30-plus years shows that this road is a dead end. 3) Have the state spend money to shift factories to rural areas. However, the state's funds are restricted and it could not handle this. 4) Motivate the peasants to engage in industry themselves and have them build township industry. Practice has proved that this is the right road to take. On the one hand it allows the state to reduce its responsibilities and thus centralize its strengths for key construction and on the other hand allows the large amounts of surplus labor to leave agriculture but not leave the village, and to enter factories rather than entering the cities. They will happily change their work while remaining in the village and will open up new production avenues and create more material prosperity for society.

3. The development of township industry will change the long-standing aspect of poverty and backwardness in the villages, and open up a new route for enriching the people. In the past, under conditions of a solely agricultural economy, the peasants income fluctuated at a low level, and they could only just stay fed and warm. Since the 3d Plenary Session of the 11th CPC Central Committee and in the wake of the development of township industry, the peasants' income has increased. In the years when there were agricultural calamities and income was reduced, township industry was especially useful in ensuring that the peasants' income was not affected. Although production decreased, their income did not, and in some cases while production decreased, incomes actually increased. Some of the profits from township industry are employed in "having industry supplement agriculture." They also play an important role in consolidating and strengthening the collective economy, in promoting agricultural and sideline production and in pushing forward all aspects of construction in the rural areas. If we take Suzhou City as an example, over the last 6 years, township industries have used over 450 million yuan while "having industry supplement agriculture." This was about 30 percent of their total profits. This was over 4 times the amount of state investment in Suzhou City villages over the same period. Within these few years, the amount of tax paid to the state by the township industries grew by about 30 percent annually. This constituted a quarter of the city's financial revenue. In addition, the township industries produced a large number of products which enriched the market supplies and assisted foreign trade exports. In 1984, total sales exceeded 4.7 billion yuan, of which exports constituted 110 million yuan. This was one-seventh of the total foreign trade income of the entire city, and thus increased the state's foreign exchange income.

4. The development of township industry has broken through the traditional division between urban and rural areas and has made useful explorations in reducing the "three major distinctions." In the past, the traditional idea was one of urban industry and rural agriculture, and that economic alliance between urban and rural areas only meant the provision of agricultural sideline products and the supply of industrial products. Since township industry began developing, the divisions between urban and rural areas have been broken down, essential changes in economic relationships have taken place and, apart from the original exchange of industrial and agricultural products, new areas have also been developed. What is especially worth pointing out is that the development of township industry has brought with it prosperity for the small towns, and given the economies of these small towns a vitality and increased vigor. Thus they have become political, economic and cultural centers of the rural areas and bridges for urban-rural ties. Through the development of township industry, there have occurred thorough-going changes in the rural employment structure, family income composition, the peasants' daily habits and spiritual outlook. It has also speeded the pace of social progress. All of these changes have allowed us to see the beginnings of a reduction in the differences between industry and agriculture, between urban and rural areas and between mental and physical labor.

At present, in the situation where urban economic reforms are being deepened, township industry is facing a new transition. On the one hand, it must serve the overall target of realizing a quadrupling of the national economy and make a new contribution to developing urban and rural economies in all areas. On the other hand, under state macroeconomic planned guidance, it must grope for new experiences and establish a new level in order to consolidate and improve itself and in order to guarantee sustained, stable, and coordinated development. In facing the new transition, how is township industry going to accord with the new situation, greet the new tasks, and make new contributions? We believe that the basic issues are liberating our minds, being brave in reform, daring to blaze new trails, unswervingly implementing the principle of "trade-industry-agriculture," placing stress on trade, gearing to the two markets, advancing the three fine cycles and speeding the realization of technological progress. In these ways, we can ensure that township industry is built on a more stable base, that it sees sustained development, is continually improved and gradually forms an industrial entity which has advanced technological equipment and local characteristics and in which industry and agriculture are combined, urban and rural areas are combined and domestic and foreign orientations are combined.

#### 1. Placing Stress on Trade and Gearing to the Two Markets

In the commodity production of township enterprises, it is necessary to stress giving trade priority, to produce in accordance with demand, to use sales to fix production and to use sales to promote production. The township industry of some areas have already produced some fairly strongly competitive products. In the powerful current of large-scale



development of commodity production, township industry should bring into play new forces, gear towards both the domestic and international markets and carry out large-scale circulation. On the one hand, it must try to expand its products' coverage and on the other hand must try to combine with urban industry, so that more products break into the international market and export trade is expanded.

While persisting in putting stress on trade and gearing to the two markets, four matters need to be resolved well: 1) There must be keen economic information. As far as township industry is concerned, information is the source of economic development. It is the basis on which enterprises take decisions and must be placed in an important position. In accordance with the demand to develop commodity production, township industry must place stress on thoroughly grasping information on the development of the situation, the changing markets, scientific and technological trends, the need for skilled personnel, commodity circulation and management experiences. We must establish a complete information system, and form a network, use all sorts of channels, transmit speedily, analyze things in a timely way and make correct decisions. 2) We must have products which are truly up to standard. Township industry should grasp raising product quality and improving competitiveness as the major tasks. They must pay attention to both the external appearance of the product as well as the internal quality. They must put efforts into the selection of technology, equipment, enterprise management and even raw materials, raise their level and guarantee that their products are of top quality so that in competition they will have an invincible position. 3) There must be smooth circulation for goods. Township industry must implement circulation which is multi-level, multi-form and multi-channel, and truly realize a situation where both upper levels and lower levels and all sides are linked into a network. In the new situation of opening to the outside world, township industry must put foreign trade on the agenda, seriously study foreign trade and widely research international prices. They must especially become adept at making small batches of diverse types for quick delivery, and put efforts into expanding exports so as to create more foreign exchange for the state. 4) Service must be stressed. They must firmly establish the concept of the user being the most important, and reputation being foremost, regardless of whether profits are big or small, whether batches are large or small, whether sales are brisk or slow, whether it is the busy season or the slow season, whether they are dealing with new customers or old ones. Customers should be solicited through outstanding service and a reputation should be won.

## 2. Promote the Three Fine Cycles

As far as township industry is concerned, the main point of attack should be the promotion of the three fine cycles of the "three industries" in the rural areas, of urban-rural industry and of export-import.

1. The fine cycle of the "three industries" in the rural areas. In readjusting the rural production structure, we must take the "three industries" of agriculture, sideline products and industry and link them up more closely

in terms of labor, funds and production. We must realize three-dimensional development, multiple processing, repeated increases in value and coordinated development. The present situation is that some work has already been done in connecting labor and funds, but the linking up or production remains a weak area. Large amounts of agricultural and sideline products are still transported to and sold in the cities as new materials. This is especially so of some perishable products. For transport and other reasons, it is difficult to directly transport and sell these products abroad. Thus on the one hand, the peasants do not get greater economic benefits and, on the other, the situation does not accord with the principles of economic rationality. If township industry directly joins domestic and international trade markets and directly joins agricultural and sideline production, it will become the main axle, and this will promote the accorded economic development of all industries in the rural areas. That is to say, it should in accordance with the needs of export trade and the domestic market, develop foodstuffs and fodder industries and other agricultural and sideline product processing industries. On the basis of the needs of processing, it should develop plantation and animal-raising industries and a transport industry which accords with it. In this way, it will be possible to enable processed agricultural and sideline products to not only rush through the "fort gates" and charge through the "city gates" but also to smash through "national gates." Thus, the small commodity economy will gradually move toward a structure with a large market and a large commodity economy, and a fine cycle for the overall rural economy will be formed. This fine cycle has already appeared in an embryonic form in Suzhou City. For example, Taican County which produces large amounts of dried meat floss, has, in the development of agricultural and sideline product processing, grasped foodstuffs processing as the breakthrough point. Over the last year, it has set up over 90 foodstuffs factories and initially formed three product series -- convenience foods, nutritional and health foods, and famous local foods. It has also begun to move toward the international market. The preserved vegetables, dehydrated vegetables, canned meat and vegetables, candied meats and vegetables, snap-frozen cold dishes and other products produced by this county's canned foodstuffs factory, are basically all processed from local agricultural and sideline products, and a "chain" of raw materials, processing, storage and transport has already been formed. In 1984, production was over 4,000 tons, over 2,000 tons of which was exported. In 1985, through compensation trade with a Japanese business, production was able to increase to 10,000 tons. The method used in Taichang accords with the demands of "trade-industry-agriculture" and also reflects the trend of development in township industrial development. The prospects are extremely broad.

2. The fine cycle of urban-rural industry. At present, an important trend in our nation's industrial development is that the cities are used as the props. Large, medium, and small industries are being combined, the products are the center, and the backbone enterprises are the key parts. Joint production which is specialized and socialized is being realized and there is mutual promotion and common development. Following the continued

deepening of the reform of the economic system, urban industry must be enlivened and must be developed. However, it is subject to the restrictions of geography and space, and avenues are being sought and an outward orientation developed. Township industry must also obtain support to consolidate, improve, and strengthen itself. This will create greatly beneficial conditions for consolidating the relationship between urban and rural areas and for promoting an even wider joining of larger, medium, and small scale industries. In such a situation, the common task facing urban and rural industry is: They must, in accordance with the principles of economic rationality, take the road of reorganization and combination and change the former situation where everything was "small but complete" or "large and complete." In guiding ideology, it is necessary to firmly establish a concept of combining the urban and rural areas. It is necessary to make overall plans for all sides, divide work rationally, and promote this combination in a guided, planned, and step-by-step way. In policy matters, it is necessary to firmly adhere to the principle of voluntary participation, equality, and mutual benefits. In terms of contents, it is necessary to join up products, techniques, circulation, operations, science and technology and service, as well as the development of resources and the establishment of raw and semi-processed material bases. In this respect, the "two legs" of official and non-government sides must "walk the road together," restrictions between regions, industries, and ownership systems must be broken down and we must realize many forms. These can include joint ventures, technological cooperation, product diffusion and processing, the assembly of parts, compensation trade, linked purchase and sales, the organization of industrial groups and so on. At present, the horizontal alliances between the urban and rural areas are in the ascendant, and are expanding towards a wider area. This tendency will provide a fine cycle between urban and rural industry and push forward the further development of the productive forces.

When resolving the question of joining urban and rural industry, another point we should examine is whether the development of the overall economy can give rise to the following situation: Both urban and rural industries bring into play their own superiorities in terms of "high quality, large (small) batches, precision and accuracy" and in terms of providing "food, clothing, facilities and accommodation," and gradually form a new set-up where there is both alliance and division of work, and where there is mutual permeation, while each has its own focal point. If it is possible for this sort of situation to appear and accord with the objective economic laws, then from now on we must look in this direction when considering arrangements for our work, gradually readjust the product structure, and rationalize industrial deployment. Everything which is suited to being operated in rural areas should be shifted to the rural areas, while in cases where things should be carried out by urban industry, strengths should be centralized, and key points developed. Thereby true economic rationality will be achieved.

3. The fine cycle of exports and imports. Developing foreign trade is an important condition for the large-scale development of commodity production and for promoting economic advance. Doing well in industrial and agricultural

production is the basis for and the result of developing foreign trade. As township industry is a component part of the national economy, it should receive due contributions. It is predicted that if township industry is good at using its own beneficial conditions, making use of its strong points and avoiding its weak points, exploring avenues and increasing product types, it is completely possible for it to take a new position and show new dynamism on the foreign trade front.

In order to achieve a fine import-export cycle, we must proceed from the existing conditions, take expanding exports as the breakthrough point, and take the earning of large amounts of foreign exchange as the goal. Subsequently, in accordance with existing strengths and capabilities, it is necessary to draw in, in a specific, planned and step-by-step way, advanced foreign equipment, advanced technology and funds, increase export capabilities and achieve the repeated cycle of exports earning foreign exchange -- drawing in advanced technology to increase capabilities -- increased exports and increased foreign exchange. In this way, there can be gradual expansion and continual development. If this fine cycle is realized, township industry can greatly progress and will be able to make a greater contribution to developing urban and rural economies.

#### Speeding up the Realization of Technological Progress

The basic characteristic of township industry is that the peasants run industry and that, in terms of science and technology, there is "an innate insufficiency." The world has already entered a new technological revolution. If township industry's production is not shifted, as quickly as possible, to a new technological base, then there could be a very adverse effect on the course of development. Although township industry in some regions has already advanced on quite a reasonable scale, and has quite a bit of good equipment and a number of good products, the majority of enterprises do things by just using local methods, and making do with whatever is available. "The techniques are close to obsolescence, equipment produces outdated products and the technology is very backward." Thus spreading technological transformation and promoting technological progress have become top priority tasks.

The technological progress of township industry should take the raising of economic benefits as the center and stress the four aspects of equipment transformation, technological planning, the development of intellectual skills and consultancy services. Through these means, it will be possible to achieve the goals of raising product quality, increasing types and varieties, promoting renewal and new generations of products, saving energy, reducing consumption, guaranteeing safe production and improving environmental protection.

The technological progress of township industry must proceed from reality and must be carried out in a planned step-by-step way with points of stress, so as to gradually raise the levels of technology and equipment. In practice, we must pay attention to resolving the following several questions well:

1. Correctly handling the relationship between an advanced nature and a suitable nature. The take-off point for the technological transformation



of township industry must be high and, must as far as possible, adopt domestic and international advanced technology, avoid following in others footsteps, and engage in the two transformations. But, likewise, we cannot divorce ourselves from reality and blindly seek the advanced. In accordance with the arduous tasks of township industry in shouldering the transfer of the surplus labor of the rural areas, the fact that many levels of production technology will continue to exist for quite some time to come, and the small-scale, dispersed nature, operational flexibility and ever-changing products of the enterprises, we must pay attention to promoting the use of efficient practical technology, widely motivate the masses to develop small changes and small inventions, and carry out technological renewal and transformation as far as possible.

2. Improving advanced technology must be done from both within and outside the nation. Our nation already has an industrial base and a certain scale of scientific research units. There is also much advanced equipment and technology. This is the main source of technological progress for township industry, and should be fully utilized. At the same time, it is also necessary to positively draw in internationally advanced technology. In short, what is available domestically should be used first. If something is not available domestically, it can be imported from abroad. In the past, in importing advanced technology, township industry was pushed to the side and it could only "bemoan its smallness in the face of such adversaries." In the last few years, this prohibited area has been breached. Township industry should fully utilize the beneficial conditions of opening to the outside, and stress the bringing into play of the roles of various channels, and through many levels, many channels and many forms, import foreign advanced technology.

3. Expanding great efforts to train skilled personnel. Advanced technology needs people who have a certain scientific and cultural knowledge to control it. In the training of skilled personnel, the township industries must persist in "walking on two legs." In one respect, they must try to draw in various types of skilled technicians and vie for some of the specialized tertiary and middle-school graduates allocated by the state. In another respect, they must positively train their own engineering and technical staff. In the training targets, it is necessary to consider the actual demands of township industries in various respects, and these should take priority in training staff. It is also necessary to proceed from the needs of development and train some young reserve forces. In courses, it is necessary on the one hand to resolve current production problems and on the other hand to lay a base for gradual improvement in future.

4. Widely developing technological consultancy services. If township industry is to realize technological development, there is a pressing need to resolve the problems of sources and channels for advanced technology. This requires that urban industry, tertiary specialized institutes, and scientific research units take the initiative in various aspects to supply township industry with information, act as intermediaries clear circulation channels and develop consultancy services. Township industry itself must positively create conditions and gradually establish a consultative service system to facilitate wider relationships, link up information, and provide good service.

15 May 1986

## ECONOMIC MANAGEMENT

## JOURNAL DISCUSSES RURAL JOINT-STOCK ENTERPRISES

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[Article by Zhao Tianzhen [6392 1131 2182]: "The Joint-stock Enterprise -- a New Rural Cooperative System" -- edited by Liu Qichang [0491 0366 2490] -- passages within slantlines published in boldface]

[Text] A new form of economy -- the joint-stock enterprises -- has emerged in our rural reform. Its great momentum and vitality have aroused universal interest. It reflects a trend and raises many new questions related to the establishment of a rural economic system with Chinese characteristics which are worth attaching importance to and doing research into.

For more than a year cooperative enterprises set up by our peasants on the basis of voluntary participation have quickly emerged in our country's vast rural areas. They have mushroomed with great vitality and have very soon become an important factor in giving impetus to the development of our rural economy, in particular to the vigorous development of our township and town enterprises, and have displayed their inestimable great role. According [word indistinct] Shaanxi Province, the number of township and town enterprises in the province rose from 36,000 in 1983 to 143,000 in 1985. Among these enterprises, more than 95,000 were cooperative and family enterprises. (Owing to the limited resources in labor, funds, and technology, only small number of these enterprises were family enterprises in the proper sense, and most of them were enterprises mainly operated by one family with the cooperation of the families of friends and relatives; therefore, we regard these family enterprises as cooperative enterprises. This is also the case below.) The income of the township and town enterprises in our province totaled 2.5 billion yuan in 1984, of which 520 million yuan was income of cooperative enterprises (the total income of family enterprises was only 100-odd million yuan), accounting for 44 percent of the increase in income. These cooperative enterprises employed over 600,000 people all over the province, accounting for 40 percent of the total number of staff and workers of the province's township and town enterprises. Compared with the old collective enterprises run by villages, the rising cooperative enterprises developed at an amazingly quick pace, had relatively high economic results, and enjoyed high prestige in our peasants' hearts.

In essence, a Cooperative Enterprise is a Joint-stock Economic Unit

The cooperatives that have emerged in our rural areas at present vary in form, but careful observation reveals that in essence, most of them are joint-stock economic units. Despite the fact that these cooperative enterprises are at the initial stage of their development and vary in form, there is much evidence that they are cooperative economic units with joint-stock capital as their core. These joint-stock enterprises have the following clear-cut characteristics:

1. The structure of their ownership is diversified. Our cooperative enterprises differ from the uniform economy owned by the whole people or the uniform economy of collective ownership, being a complex economy comprising diverse economic factors. In this sense, they are a broader concept. What do the kinds of ownership of the cooperative enterprises that have now emerged in our rural areas consist of? First, there are enterprises which are joint-stock joint ventures among our peasants on the basis of family enterprises and specialized households. When our specialized households and family enterprises develop to some extent, their productive forces inevitably demand a transition toward the socialization of production. Within the bounds of possibility in our rural areas, joint-stock joint ventures among our peasants first emerged. These cooperative enterprises, which are joint ventures of the family economy, are the main trend in our rural areas at present. Our statistics show that they account for over 60 percent. Second, there are joint-stock joint ventures between peasants and collectives, including the joint ventures between peasant households and brigades (administrative villages), production teams (natural villages or groups) or small handicraft, commercial, or service firms in towns. These enterprises account for about 20 percent. Third, there are joint-stock joint ventures among individual traders, collective firms, state-owned enterprises, and foreign businessmen, including those between peasants and state-owned industrial or commercial enterprises, or scientific research institutes, or Hong Kong or foreign businessmen. They also account for about 20 percent.

2. Diversified combinations of production factors. Another characteristic of rural cooperative enterprises is the organic combination of various kinds of production factors. This can give rise relatively quickly to productive forces. The combinations can be roughly classified as follows:

a. Technology-labor combination: Those who have plenty of labor but lack technology invite scientific research units, large factories, mines, colleges, or universities to take shares in their enterprises by providing technology. This combination of science and technology with the most vigorous factor -- labor -- is our peasants' most urgent demand in developing industry; therefore, it is a widespread combination. Most of this is carried out between our urban and rural areas.

b. Funds-materials combination: This kind of enterprise has mainly emerged in the areas with rich natural resources. Because of a shortage of funds, shares subscription is invited from among the community to raise funds for the establishment of cooperative enterprises. This is also a kind of cooperative enterprise that is in brisk operation in our rural areas. Comparatively speaking, this is mainly a combination between developed and developing areas.

c. Combinations of various factors, including combinations of many kinds of factors such as land, factory buildings, equipment, raw materials, funds, and labor. As this kind of combination can select cooperating share-holders in light of the demands of development, it is very flexible and universally applicable.

3. The methods of distribution are diversified. The combination of diverse economies and factors determines the diversification in the methods of distribution of the cooperative enterprises, which can be summed up as follows:

a. Floating distribution system: This consists of two floating distribution systems related respectively to laborers' remuneration and shareholders' dividends. In other words: a) all those who work in the factory, shareholders or nonshareholders, are paid floating wages in accordance with the amount and quality of their labor, and all the wages are regarded as costs; and b) when the final accounts are made at year end, the balance of the profit, after deduction of inanimate and animate labor, tax payments to the state, and adequate transference to reserves for accumulation, should all be distributed as dividends. Some of the joint stock enterprises have relatively large amounts of funds for dividend payments and they use part of the money to pay a bonus to staff and workers for their labor contributions. This method first ensures the labor income of the laborers, then enables laborers to get a bonus when the net profit is relatively large, and also takes into account shareholders' interests; therefore, it has been well-received and enabled us to run the enterprises satisfactorily.

b. Fixed dividend system: The dividend for the share issued for the acquisition of funds, technology, and materials is fixed (generally unchanged for 3 years). Before year end, laborers can get prepayments of their wages. At year end, the enterprise carries out profit delivery and transference to reserves and pays the fixed amount of dividend, and then distributes the balance of the profits among the laborers as their wages (called dividends for labor). The greatest advantage of this method is that it embodies the principle of more pay for more labor; therefore, it is most commonly used.

c. Equal distribution system: This system is mainly implemented in some small cooperative enterprises where shareholders contribute equal amounts of funds and labor, have an equal share subscription, and share profits equally. As the scale is small, the results of management and profit-earning can easily be seen; therefore, this method is also adopted by our peasants.

From our on-the-spot investigation, we can also see that most of the rising cooperative enterprises in our rural areas have the following five common characteristics: a) they commonly adopt the board system and have formulated articles of association for their enterprises; b) the funds, equipment, and materials contributed by the shareholders are not rented or loaned to the enterprise but are given to the enterprise as long-term share capital; c) the enterprises are under a shareholder ownership system, the major power over the enterprises being in the hands of the shareholders meetings rather than any other department; d) there is distribution of bonuses and share dividends in addition to distribution according to labor in all these enterprises; and



e) shareholders are masters of the enterprises, sharing the economic responsibility for the enterprise, enjoying the fruits of their operation, and suffering their losses; therefore, the shareholders share weal and woe with the enterprises. From the above we can see that most of the cooperative enterprises that have so far emerged in our rural areas are in essence a kind of joint-stock economic unit, though at the initial stage.

The cooperative enterprises that have vigorously emerged under the new situation are an outcome of the party's new rural policies and also what the development of our rural commodity economy inevitably requires. The magnificent trend of development of this new emergence, in spite of the short period of time of only a year, proves these enterprises' great vitality. This is shown in the following:

Three negations: The emergence of the cooperative enterprises means a negation of fixed patterns and concepts. First, it negates the system of "integrating government administration with commune management" and enables rural enterprises to really become economic entities over which the peasants have decision making power. Under the prolonged influence of the idea of "integrating government administration with commune management," enterprises then set up by our peasants were turned into enterprises of the village government organs and power over the management policy decisions, labor and personnel, and distribution of profits was in the hands of a small number of village cadres. These "official enterprises" run by administrative means were divorced from the masses of people because the latter had no power to participate in the former's management and seldom benefited from the former. This hindered the survival and development of the enterprises. In our cooperative enterprises the above-mentioned system is entirely abolished. These enterprises are led by their shareholders' congresses and boards. Under the precondition of observing the state's decrees and policies, they have the right as legal persons to operate independently. Second, the old pattern of "three-level ownership" and the closed pattern is switched to the open pattern. For many years, the principle of "three-level ownership with the production teams as the basic accounting units" fettered our township and town enterprises and the enterprises that were joint ventures of cooperation among our peasants were discriminated against. It was not until the eve of the 3d Plenary Session of the 11th CPC Central Committee that these enterprises were included in the figures for our township and town enterprises in our statistical records. The collective enterprises that were established on the basis of the principle of "three-level ownership" in fact formed a closed economy of local ownership. It was very difficult for them to be geared to the needs of society or to develop lateral relations. In a precisely reverse way, the cooperative enterprises are not bound by any regional, departmental, or trade restrictions and can develop joint-stock cooperation with local peasants or any relevant unit or individual at home or abroad outside their region, department, or trade. Third, the "monism" in our distribution is negated. Under the precondition of persisting in maintaining the dominant position of distribution according to labor, dividends are paid to shareholders. In the past, our township and town enterprises could only use "work points" as the yardstick for their distribution according to labor,

and people were only allowed to contribute labor to the enterprises; therefore, when the enterprises wanted funds, they could not help but resort to borrowing. In fact, inanimate labor is indispensable for an enterprise, as well as animate labor.

In the initial period of the establishment of a township or town enterprise, the state invests no funds in it and only provides it with limited loans; therefore, it has a great shortage of funds and cannot start many of the projects that it wants to carry out. This directly hinders its development. The cooperative enterprises mainly carry out distribution according to labor and also pay some dividends to the share holders who have contributed materials, equipment, and funds. In this way, our township and town enterprises are provided with both the "personal" and the "material" factors to promote their rapid development.

Two "combinations of three": A cooperative enterprise is set up and managed by peasants themselves. The members of the shareholding families contribute labor to (or employ workers to work in) the enterprise. The close combination of owners, managers, and laborers embodies the unity of ownership, power of management, and direct participation in the labor. The shareholders in a cooperative enterprise have invested their own money in the enterprise, and make decisions and carry out distribution on their own. This combines responsibility, power, and interests, and embodies the identity between the ownership relation to means of production and the distribution relations to products. As a result, the peasants are concerned about their enterprises, are enthusiastic, and have no worries about their enterprise, and the enterprise is filled with vitality.

Accommodation of funds: Our cooperative enterprises play a unique role in being able to attract and accommodate funds in a wide manner. Investing one's funds in these enterprises can produce dividends and bonuses and is also conducive to solving the problems related to our enterprises' funds. Acquiring shares by contributing means of production is conducive to overcoming shortages of raw materials and equipment for the enterprises' production. Not only individuals, but also state-owned enterprises, collective enterprises, or foreign or Hong Kong businessmen can be shareholders in these enterprises. People can also contribute capital and labor or labor alone to acquire shares. In short, the forms are flexible and the enterprises can establish relations far and wide. This can relatively satisfactorily ease the shortage of funds for these enterprises and enable them to develop on their own without relying on state loans.

Transformation: This means that the development of our cooperative enterprises transforms science and technology into productive forces. When peasants switch from traditional industries to new industries in developing industry, the greatest difficulty for them is the shortage of science and technology. In the beginning they purchased technology and patents and paid dearly for technological advice. Now they have become more clever. They find technological backing through inviting scientific research institutes, colleges, universities, and factories to acquire shares by contributing technology which becomes long-term investment in shares and for which

dividends are paid. By so doing, they have switched from purchasing technological services once for all into establishing permanent technological cooperation, and thus linking the fruits of research of our scientific research units with economic results. On the one hand, our rural enterprises are thus provided with advanced technology and equipment and have better technology to ensure their product quality; on the other hand, scientific research has thus been combined with production, so that our urban scientific research undertakings can play a very useful role in our rural areas. At present, most of the satisfactorily run township and town enterprises have relied on this method for their development.

**Higher economic results:** This means that the economic results of our cooperative enterprises are relatively high. At present, the joint-stock cooperative enterprises that have developed in our rural areas are clearly characterized by their small size. There are many advantages related to small size, because they are easy to set up, administer, and manage. It is easy to set up many of them and then to enlarge them. A small enterprise needs little investment and loans, occupies less land, employs few nonproduction staff, and can thus have greater economic results with less expense. A small enterprise can flexibly change its production orientation and it is easy for it to specialize. Much data gained from our investigations has proved that compared with rural collective enterprises, the cooperative enterprises set up by our peasants have the advantage of "getting double economic results with the same investment." Therefore, it is justified for some people to think that collective enterprises have greater vitality than state-owned ones, and that cooperative enterprises have greater vitality than collective ones. Our cooperative enterprises not only have higher economic results, but are more diversified in their trades. In economically underdeveloped areas, they have particularly great advantages and vitality, being easy to set up and quick to develop.

#### **New Problems Requiring Urgent Solution**

The joint-stock economic sector that first emerged in our rural areas is a major sector in the sphere of township and town enterprises. However, there is also diversified development of joint-stock enterprises in other spheres. Joint-stock enterprises that combine agriculture, forestry, and animal husbandry, and in particular those combining agriculture and commerce, have continued to emerge. Joint-stock cooperation has also emerged in our financial sector. This is a heartening new situation, but has also given rise to some new problems that urgently require us to unify our understanding of them, study them, and solve them. At present, priority should be given to solving the following three problems:

1. It is necessary to clarify theoretically the nature of our cooperative enterprises. At present, new things are merging in an endless stream in our rural areas; therefore, people's understanding often lags behind the development of the situation and they have various worries about the emergence of various kinds of joint-stock economic entities. Some people think that as these entities include some capitalist factors, they are not socialist units. Others think that they are "joint state-private" economic entities. Still others think that there is "exploitation" in these entities. In short,



people's views vary in many ways. However, facts have proved that this new economic form has already played, and is playing a tremendous role in developing our commodity economy and productive forces. What, after all, is the nature of the joint-stock economy that consists of combinations of diverse economic factors, diverse production factors, and diverse forms of distribution? It is impossible for us to answer this question within the scope of our previous fixed concepts, and it is imperative to do theoretical research in order to give a clear answer and in order to give impetus to even more vigorous development of this sector.

2. Clearer policies are necessary. The methods of calculating the value of the technology, materials, and equipment which are contributed to acquire shares should be made more rational and scientific, and so should the forms of share subscription and distribution. But the existing methods and forms are easy for people to accept and so far there have not been many disputes about them. At present the most prominent problem is that people differ in their views on, and have doubts about, the acquisition of shares by contributing funds and the paying of bonuses and dividends. The CPC Central Committee's Document No 1 of 1983 points out that "distribution according to labor is the main form and at the same time there is a certain proportion of share dividends." We have to clarify the meaning of the word "certain." The actual problem now is that generally, people do not oppose the payment of some bonus and dividends at a rate a little higher than bank interest rate to those who have contributed small amounts of funds to acquire shares. However, in regard to shareholders who have contributed large amounts of funds and who are paid relatively large proportions of dividends. People have the opinion that the dividend is "exploitation" of a portion of the laborers' surplus labor. Therefore, some specialized and rich households and even some state-owned enterprises dare not freely subscribe to shares even if they have funds. They would rather put their cash in banks or in their own safes than invest it in production. At the same time, the peasants in our rural areas, particularly in poor areas, have natural and labor resources, want to set up enterprises, and are keen to become rich, but they lack funds to do so. This has given rise to a shortage of funds in some areas and idle surplus funds in others. At present, the state is exercising credit control, but there is money lying idle in the hands of some people in our urban and rural areas. If we can draw up some more specific and clear policies, it will be possible to use these idle funds in order to better develop our productive forces.

3. It is necessary to formulate a joint-stock enterprise law. Having given, a clear answer by our theory and policies, to the question regarding the nature of our cooperative enterprises, we should formulate corresponding laws and regulations, including those related to issuance of shares, share certificates, administrative organs, and the stock market, and thus guide the healthy development of our joint-stock enterprises toward the socialist orientation. At present, some rural cooperative enterprises have already issued shares, but as they lack experience and have no laws or regulations to follow, they are not clear about many matters and there is a confusion in their practice.

Our cooperative enterprises have already displayed their great vitality in developing rural commodity production and exchange. The tide is rising with a vengeance and there should be no delay in carrying out research and probing into this new emergence.



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Reforms Enumerated

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[Article by Fang Bi [5364 3880]: "Firmly Grasping Coordinated Reforms Both Within and Outside an Enterprise is the Only Way to Stimulate the Enterprise" -- edited by Xu Xiaojia [1776 1420 3773]

[Text] The Wuhan diesel engine factory is a medium-size agricultural machinery enterprise with a history of 30 years and a current staff of over 1,800 persons. In 1957, this factory test-manufactured our nation's first hand-held tractor and received praise and encouragement from Chairman Mao. In 1965, the factory achieved an annual production capacity of 10,000 model-195 diesel engines, and was assessed a national advanced enterprise. The 10 years of disorder resulted in the ideology of staff members and workers at the Wuhan diesel engine factory becoming confused, management became slack, basic work was weak and product quality declined for a long time. During the reorganization of the enterprise, as a means of enlivening itself, the Wuhan diesel engine factory made a report to the city government requesting permission to employ a foreign expert to assist in designing a "direct jet blast chamber" of international advanced standards. The request received the city government's attention and concern.

In 1983, when the head of the West German retired experts service office came to Wuhan to observe and study, he made an inspection of the Wuhan diesel engine factory. He felt that the factory first needed strengthened management and improved technology, the carrying out of a certain amount of preliminary work and, once results were achieved in this, some further planning work. In accordance with a consultancy contract, Mr. Werner Gerich arrived at the Wuhan diesel engine factory in September 1984. Gerich, who is 65 years-old, is a West German engine manufacturer and iron stem [tie rui 6993 5605] technology expert. Since the 1940's, he has spent many years in both West Germany and Egypt managing various factories and has rich management and technological experience. During Gerich's period of consultancy at the Wuhan diesel engine factory, he showed deep sympathy for the problems of the plant, such as the problems of management not grasping the main points, the sluggish workstyle, and the great [?]. He successively put forward 52 suggestions for renovation and reform, and repeatedly suggested that if they let him become the manager of the factory, through strengthening management, he could extend the use-life of their diesel engines from 3,000 hours to 10,000 hours, and could get them into the

international market. The wide masses of workers, looking at the way he worked, also successively advised the leaders that they hoped that Mr Gerich would be appointed a factory manager.

The city party committee leaders knew that although West Germany was a capitalist country, its management technology was advanced. They felt that advanced scientific technology and management experiences are the crystallization of the wisdom of all mankind, and are the commonwealth of mankind, and thus we should study them and use them for reference. In implementing the Central Committee's policy of opening to the outside world, we must make sure of both foreign material and technological sources and bravely use foreign personnel sources. In order to promote the comprehensive structural reform of the whole city, the city party committee bravely decided to give it a try, and requested the city government to approve the report of the city machine-building bureau on the proposal put forward by the staff and workers' congress of the Wuhan diesel engine factory requesting the appointment of Gerich as factory manager. Accordingly, on 1 November 1984, the city machine-building bureau officially employed Gerich as the factory manager of the Wuhan diesel engine factory. At the same time, the city party committee decided that the factory would be a trial unit for the implementation of the factory director responsibility system, and gave Gerich all due powers of a factory manager. In order to strengthen leadership over the experimental work in the Wuhan diesel engine factory, continually sum up experiences, and promote the comprehensive reform of the whole city's economic structure, the city party committee sent a "guidance group," led by a member of the standing committee of the city party committee and comprised of major leaders of the city discipline inspection commission, the city economic commission, the city federation of industry and the city bureau of machine-building, to promote concrete guidance and assistance for the Wuhan diesel engine factory in carrying out the experimental reforms.

The guidance group, on the basis of providing guidance to the leadership, not replacing it, and the principles of combining study and blazing new trails and of blazing new trails through study, tightly centered around studying the experiences of the expert inputting order into the factory, putting effort into stimulating the enterprise and in exploring roads for reforming the economic structure, and did well in the work of overall planning, coordination, supervision, and service. Over the last year, the guidance group has done a large amount of work which can be summed up in two points:

#### 1. Guiding the Wuhan Diesel Engine Factory in Coordinated Reform Within the Factory

Before Gerich took up his post, he acquainted himself with the factory director responsibility system provisional regulations and the factory director responsibility system, and earnestly made two requests to the city machine-building bureau: First, that he truly have the power to fire workers as well as the right to employ or discharge cadres; second, that he truly have the power to encourage the staff and workers through the

implementation of distribution according to work. The guidance group felt that these two points are the key issues in the implementation of the factory director responsibility system and thus they not only expressed support but, in order to allow him to go all out in being a good factory manager, also guided the Wuhan diesel engine factory in carrying out a series of coordinated reforms within the enterprise.

In the area of correcting operational ideology. In order to change the original concept in the factory of stressing output quantity and looking lightly at quality, Gerich established the concept of quality first. After taking up his post, he took the readjustment of quality as the breakthrough point and firmly corrected the operational ideology of the cadres. That was at the end of 1984 and 23 percent of the production tasks for the year were still to be completed. Some of the cadres were very worried about this, for if the production plans were not completed, it would directly affect the economic interests of the staff and workers. Thus they felt that it was not opportune for Gerich to be reorganizing quality. At this time, the guidance group positively coordinated with Gerich's work, causing everyone to understand that reorganizing operational ideology was a major matter in putting the factory in order, that small matters should not be able to obscure major matters, and that only if the enterprise developed would the interests of the staff and workers be guaranteed. As the understanding of cadres at various levels and staff and workers was unified, the production tasks were also completed on schedule while quality was reorganized.

In the area of ideological and political work. After Gerich took up his post, some people kept their distance from him as they felt that he was too strict in his requirements and did not pay attention to people's feelings. Also, the political work cadres felt that since the foreign factory manager had come, political work had not been done well. When Gerich first came, he did not really understand our ideological and political work and thus he only paid attention to administrative management. In respect of this situation, the guidance group organized, on three occasions, study for party and political work cadres, to further eliminate worn-out "leftist" ideas and to study the characteristics of political work after the implementation of the factory director responsibility system. Through study everyone came to understand that with a foreign factory manager engaged in strictly putting order into the factory, the ideology of the staff and workers would be more dynamic. Thus the ideological and political tasks would not be fewer, but greater and more complicated. Thus the party committee had to transfer the focus of work to doing well in party building and doing well in ideological and political work. In order to further research the characteristics of ideological and political work after the implementation of the factory director responsibility system, the factory's political work department organized an ideological work exploration group. Every day, this group sent cadres to follow Manager Gerich in going deep into the workshops, to master the contents and characteristics of his work and the ideological trends and the workers reactions to this work. In this way, good workers

and good actions could be praised when required and the existing problems could be discovered. The guidance group also compiled excerpts of what the Central Committee leading cadres had said on drawing on the intellect and on Gerich's putting order into the factory and his methods in this. These were used to provide the staff and workers with education in patriotism and ideals. The guidance group pointed out that ideological and political work should provide three guarantees: raising ideological understanding and changing passivity to initiative so as to guarantee that the manager's orders are smoothly implemented; doing well in clearing work and changing negative factors into positive factors so as to guarantee the stability and unity of the whole factory; and going deep into the grassroots and changing the situation whereby political and economic work are completely separate to where they are tightly combined, so as to guarantee the completion of all tasks. As ideological and political work has developed it has caused the staff and workers of the whole factory to further become aware of the great importance of the policy of opening to the outside world and of implementing the factory director responsibility system. Thus, they actively participated in the various reforms within the factory. This also caused Gerich to recognize the power of our ideological and political work. After a time, he took the initiative to discuss work with the party committee secretary and the staff and workers' congress chairman, voluntarily participated in the staff and workers' congress and requested staff and workers representatives to examine his work report.

In terms of the personnel system. Gerich believed that the standard for employing administrative cadres should not be whether they had made mistakes or not, but whether or not they could do their work. During the work of reorganizing quality, when Gerich discovered that the general engineer, a university graduate, was not competent in his job, he very firmly required his dismissal and the appointment of a comrade who was a graduate of a vocational middle-school, in his place. In order to guarantee the factory manager's personnel powers, the guidance group proposed to the relevant departments that management power in respect of deputy-manager level cadres be handed down to the factory and that the middle-level cadres in the administrative system be all directly appointed by the factory manager.

In terms of the enterprise management system. Gerich felt that the large number of offices and sections within the factory were not coordinated. In order to assist production operations and raise the work efficiency of the various functional departments, he planned three lines: the sales departments line; the production technology departments line; and the quality inspection line. In accordance with his proposal, the guidance group made a preliminary adjustment of the structure and established a technology and product blueprint revision office and a rationalization suggestions and technological improvement office. The quality inspection section and technology section, which were originally managed by the general engineer, were put directly under the leadership of the factory director.



In terms of the distribution system. Gerich required the reform of the wage system and the rewards system, and the reform of the original wage structure. The guidance group supported his reform requirements and also continued to take our national conditions into consideration. With him, they studied a plan for a structured wage system. This plan adopted an inverse seniority-merit wage system, in which the base pay becomes smaller as the seniority gets higher and therefore the distance from the optimal working age becomes greater. After this plan was instituted, while the wage base of the whole of the factory did not change, the Wuhan diesel engine factory could at set periods and in accordance with how well workers worked, adjust the wage scales up or down.

## 2. Through Doing Well in Coordinated Service, Promoting External Reform

In order to change the situation of enterprises being appendages of state organs and to create fine external conditions for the enterprises, the guidance group, through doing well in external coordination and service work, paid attention in their work to exploring avenues for arranging coordinated reform of the leadership organs and comprehensive economic departments.

After Gerich took up his post, the leading comrades of the city machine-building bureau and city economic committee proceeded from grasping basic work and further recognized the influence of enterprise quality on the production operations of the enterprise. Thus, they carried out an overall investigation of the equipment situation at the Wuhan diesel engine factory and discovered that there were 589 pieces of equipment valued individually at over 800 yuan in this factory, of which 36.6 percent had been purchased in the 1960's, 42 percent had been purchased in the 1970's, and only 4 percent had been purchased in the early 1980's. They held that although Gerich had strengthened management in the Wuhan diesel engine factory, because of the restrictions imposed by the equipment, the degree to which product quality could be improved was limited, and thus there was an urgent need to carry out technological transformation in the Wuhan diesel engine factory. However, putting themselves in the position of the factory and considering things, they realized that at the time there were many difficulties in the enterprise carrying out technical transformation. These problems were mainly centered on there being too few funds and too many examination and approval procedures. Thus, they requested the relevant comprehensive departments to carry out a collective check-up in respect of the Wuhan diesel engine factory, and change individual visits to collective service calls. They also arranged for timely resolution of the problem faced by the Wuhan diesel engine factory in respect of technological transformation funds. Gerich was extremely happy about this. Afterwards, the city government cadres and relevant comprehensive departments adopted on-the-spot work and visiting service methods for a number of important factories subordinate to the city. This received highly favorable comments from the enterprises.

The Wuhan branch of the Industrial and Commercial Bank also went deep into the Wuhan diesel engine factory and discussed with the comrades in the factory how to bring into play the regulatory role of economic levers so as

provide conditions for stimulating the Wuhan diesel engine factory. The bank carried out several reforms in terms of floating funds credit, technical transformation and equipment credit, as well as in cash management, simplified procedures as far as possible and acted flexibly, harmoniously, rationally, and in a timely way. This was intended to show the Wuhan diesel engine factory that the bank's financial management was both strict and flexible and to promote the reform of the enterprise and the development of production. The relevant offices spread these new management methods and used them for 26 state-owned enterprises under the region, and this was widely acclaimed by the enterprises.

In terms of prices. The leaders of the city pricing bureau personally held an on-the-spot work meeting at the Wuhan diesel engine factory. The city metals corporation and the Wuhan diesel engine factory signed a supply contract and clearly set down the economic responsibilities of both sides. This guaranteed quality and quantity and service calls. In 1985, this corporation also signed service supply contracts with three relatively large engineering operations in Wuhan City. This was also well-received by the users.

Also, the underground pipe system of the Wuhan diesel engine factory was laid 20 years ago and was unsuited to the demands of the enterprise's production development. Previously, transformation plans had been put forward many times, but each time they were just discussed without being implemented. The city government environmental sanitation department had long put off resolving this problem. In May 1985, following 2 days of heavy rain, there were 2 feet of water within the factory. This forced the factory to shut down production for 2 days which reduced production by close to 1,000 diesel engines. Gerich burned with impatience. When the comrades at the city government heard of this, they organized relevant departments to hold a work meeting at the factory. In only 10 days the problem which had lain unsolved for many years was fixed. The city government environmental sanitation bureau at Qiaokou came to deeply realize, through this matter, that whether the city government's work is done well or poorly directly affects the enterprise's production and the lives of the people. In order to improve work efficiency and quality, internally they set up a small accounting unit to strengthen accountability and motivate the workers' enthusiasm. Externally, they were positive in service, thought about what the enterprises thought about, and were anxious about things the people were anxious about. In the last half of 1985, three of the projects they were responsible for were commanded.

To sum up, in order to enable Gerich to exercise his powers as factory manager and to carry out his work in smoothly developing the Wuhan diesel engine factory, the guidance group carried out various coordination and service work. Each time Gerich encountered restrictions from any side, or when he was obstructed in exercising his powers as factory manager, the guidance group cleared away the obstacles for him. Whenever, in raising the quality of the Wuhan diesel engine factory or improving product quality, he required external or regular objective conditions which involved

other departments, the guidance group on the basis of the "strike reflex" principle, encouraged the relevant departments to carry out the appropriate reforms, to enliven the Wuhan diesel engine factory, to enliven large and medium-size enterprises, and at the same time, to link this up with comprehensive city-wide reforms.

The decision on the reform of the economic structure taken by the 3d Plenary Session of the 11th CPC Central Committee [as published] clearly pointed out that increasing the vigor of enterprises is the key link in the overall reform of the economic structure, with the urban areas as the focus. How, then, is the vigor of enterprises to be increased? It can be said that the work experiences of the guidance group sent to the Wuhan diesel engine factory by the Wuhan City CPC Committee give us new inspiration, that is, that we should grasp coordinated reforms both within and outside the enterprises.

### Successes Seen as Model

HK231003 Beijing JINGJI GUANLI in Chinese No 3, 5 Mar 86 pp 23-26

[Article by Qin Zhong [0530 1813]: "How Did Gerich Put the Wuhan Diesel Engine Factory In Order?"--Edited by Xu Xiaojie [1776 1420 3773]

[Text] On 1 November 1984, West German expert Mr Werner Gerich took up his position as factory manager on the Wuhan Diesel Engine Factory. Over the last year-plus, because his work style has been strict, he has delved deep into matters, been diligent and acquired a good knowledge of the industry. Consequently, he has been able to run the factory very ably. Not only has he caused the Wuhan Diesel Engine Factory's economic results to be raised by a great degree, but the spiritual mien of the staff and workers has also seen some very obvious changes. The output value in November and December 1984 was 23 percent of the year's plan, while profits realized were 67.3 percent of the year's planned total. The production volume from January to November 1985 grew 14.9 percent over the same period the previous year, while above-quota profits grew 61.4 percent. Product quality was comparable with the best ever achieved in the factory. The total rate of casting rejects dropped from 32.72 percent to 12.44 percent. The up-to-standard rate for first-time test-runs sent for inspection rose from 80 percent to 95.5 percent. The up-to-standard rate for the performance of component parts of the engine reached 95.81 percent, and the up-to-standard rate for key component reached 100 percent. Of this: the degree of clearliness reached 48.3 milligrams (ministry standard: 165 milligrams) and consumption per horsepower-hour of oil was 1.46 grams (ministry standard: 1.7 grams) and of diesel 182 grams (ministry standard: 185 grams).

Gerich set about putting the Wuhan Diesel Engine Factory in order by doing the following:

1. Correcting the Operational Ideology of Leading Cadres, Being Strict in Technological Discipline and Earnestly Establishing the Concept of Quality First

In 1984, Gerich discovered, through 2 months of consultations, the major reason for the poor quality of products. It was not that the technical level was low or equipment conditions poor, but rather the inappropriate relationship between production volume and quality as it had been arranged by the factory leaders. The factory leaders had their eyes only on production



volume and quality as it had been arranged by the factory leaders. The factory leaders had their eyes only on production volume and felt that as the diesel engines were agricultural machinery, and would be used in water and mud, it did not matter if the quality was a little poor. Because they overlooked product quality, administration of the factory was not rigorous, management was lax, and the technological discipline of the workers was poor. Gerich zeroed in on this major contradiction which had been affecting the development of the enterprise and proceeded on the basis of the actual situation at the Wuhan Diesel Engine Factory. He did not simply copy current modern management methods used in West German enterprises. Rather, he took overall product quality as the point of departure and put firm efforts into strengthening the basic work of the enterprise.

He first corrected the operational ideas of the enterprise leaders, reorganized technological discipline, and helped the staff and workers of the whole factory establish the concept of quality first. On the fourth day in his post as factory director, he discovered at the work-site 146 water tanks with holes blindly drilled. Through investigation, it was found that the holes, for clamping screws, had not been drilled according to blueprints. He sternly pointed out that this would result in the clamping screws mistapping, which would make it hard for the peasants to carry out repairs in the future. He demanded that they be immediately reworked. However, the examiners felt that this was not a major technical problem. The person in charge had advocated handling it by just smearing on a bit of quick-drying glue. Gerich also examined the products going into storage and found that 108 engines all had the same problem. He immediately required that these products be completely reworked. At the same time, he traced and affixed responsibility and conducted for the entire factory an education session on quality. He pointed out: quality and quantity are not contradictory. Only if quality is high can waste be reduced and quantity raised. Production without quality is blind production. An enterprise without quality will have no business avenues, the country will not be able to prosper, and there will be no progress. Secondly, he analyzed why the quality of the Wuhan Diesel Engine Factory products had for a long period not improved, and proposed methods for resolving the problems. He stressed that if quality was to be improved, technological discipline had to be rectified.

To achieve this, the enterprise's technology would be equivalent to the law and if the workers did not seriously adhere to technology in their work, they would have broken the law. He said the reason the product quality of the Wuhan Diesel Engine Factory had not risen for a long time was that the product standards of the factory were low. In this matter, the head of the investigation section was to blame and the chief engineer responsible for inspection techniques and technology had neglected his duty. He decided to remove them from their posts. The chief engineer was sent out of the factory and was employed as an ordinary engineer, while the head of the investigation section was demoted to a parts inspector outside the plant. In addition, those inspectors on duty and the workers involved in the direct drilling of the screw holes were treated appropriately. Gerich's handling of this matter had serious repercussions throughout the whole factory.

## 2. Grasping Essentials, Seriously Rectifying Product Quality

In order to raise product quality, Gerich directly grasped the work of establishing technological discipline and started product analysis meetings, special quality problem meetings, and so forth. To improve product quality, Gerich had to focus on the following five aspects:

### 1. Grasping the Transformation of the Work Moulds and Improving the Quality of Casting.

He believed that to improve the quality of the diesel engines, it was first necessary to concentrate on quality in the casting of the flywheel and the block, so as to reduce the rejection rate. He believed that there were various reasons for the high rate of casting rejects. The work moulds were few in number and did not conform to the blueprint requirements. For six specifications of cast, they had only one mould set.

"Since 1974, this had been constantly damaged and repaired, which affected both production and quality, and resulted in a lack of uniformity in the thickness of the casts. Machined dimensions far exceeded the requirements as set down in the blueprints. A cast of an engine block was 3 kilograms heavier than what was stipulated in the blueprints. Thus, on the one hand he paid close attention to organizing the restoration of the old mould set and on the other hand directed the tool workshop to rush produce new mould sets. He required three mould sets for each type of casting. At the same time, Gerich also carried out an overall reordering in respect to manufacturing, using sand moulds and mud cores, coating with carbon grey, getting more precise mould box placements, improving furnace management and the cleaning, polishing, and finishing of casts, and shortening the time for which blanks were immersed in primer. As a result, the rate of rejects quickly fell from 32 percent to 12.56 percent, with the weight of the engine blocks dropping 3.25 kilograms.

### 2. Grasping Quality in Processing of Parts

In order to raise quality in the processing of parts, Gerich strictly enforced technological discipline. He established checks at each stage and did not allow parts which were not up to standard to be used. From getting rid of burrs, to polishing oil port chambers and parts, he personally showed how it was to be done. In respect to those "long-standing, major, and difficult" problems, he adopted the method of tackling them after consultations. For example, he concentrated on the problem of the up-to-standard rate of the Zhi Kou [2922 0656] engine block being only 20 percent. He organized a technical staff to attack the problem. First, they sought the causes, after which they warmed the hydraulic machine tools up in advance, improved the work mould clamps, and strictly enforced technological discipline, which caused the up-to-standard rate to immediately climb to 75 percent.

### 3. Improving Cleanliness, Guaranteeing Overall Quality

Gerich believed that more cleanliness was another key issue in guaranteeing the quality of the diesel engines. The Wuhan Diesel Engine Factory had in

the past felt that before products left the factory they had only to undergo 2 and a half hours of trial-testing. There was only one test run and dirty stuff would still flow out afterwards. In fact, little attention was paid to the results in terms of the degree of cleanliness and often, before the engine had left the factory, the crankshaft and the cylinder block had already been damaged.

To raise the degree of cleanliness, Gerich on the one hand decided to change post-test examination to pre-test examination. He also put efforts into improving the degree of cleanliness of all parts. If something needed to be burnished, it had to be burnished and gear wheel surfaces had to be machined smooth. Also, the process of polishing the crankshaft and the oil port chambers was improved. He also insisted that the frequency of cleaning of parts be increased and made optimal arrangements in terms of the density and temperature of the cleaning liquids. In December 1984, the degree of cleanliness of the products of the Wuhan Diesel Engine Factory was 157.6 milligrams, according to an examination by the Wuhan Agricultural Machinery Company. In February 1985, when the Wuhan City Standards Bureau examined them, the figure was only 66 milligrams.

#### 4. Seriously Examining the Quality of Parts Produced Through Outside Cooperation.

Of the parts used in the engines produced by the Wuhan Diesel Engine Factory, parts produced outside through cooperative agreements constitute 79 percent. Thus, Gerich paid close attention to the quality of the parts produced outside. In respect of those parts which were produced in various plants, he required that they be stored in categories according to the factory which produced them and the date of production. Cards had to be filled to note which parts produced outside were used in which completed engines, noting their producing factory and date of manufacture. Thus, at all times, the use of parts produced outside was controlled. Also, on several occasions he had discussions with factories producing parts for the engines with the aim of improving the quality of their parts. When he found that the quality of water tanks produced by an outside factory had clearly improved, he personally went to the factory to express his appreciation.

#### 5. Grasping the Quality of Quality Inspection Work, Improving Checking and Measuring Methods, and Perfecting Systems of Quality Guarantees.

Gerich believed that one of the major reasons the quality of the Wuhan Diesel Engine Factory products had not improved for a long time was that its inspection staff were not strict in their checking, the credentials of the inspection staff were low, and their work quality poor. In order to raise the quality of inspection work, he first changed the jurisdictional relationship of the inspection section. Instead of being managed by the chief engineer, it was put under the direct leadership of the factory manager. At the same time he reorganized the inspection section's leading group and strengthened its leadership, he also required inspection personnel to firmly carry out their work and to make tours around the workshops. In order to raise the quality of inspection workers, he personally gave instructions and trained the inspection workers in rotation. In order to have unified inspection and



measuring standards, he arranged to have necessary measuring instruments issued to the inspection staff.

As Gerich strictly readjusted product quality, the Wuhan Diesel Engine Factory's products improved swiftly and firmly. If we compare the period January to November 1985 with the same period the previous year, we find there was a great decrease in the reworking rate, in accordance with the "three guarantee," for the components of the factory's diesel engines. Those for the block declined by 78.82 percent, for the crankshaft by 72.85 percent, and for the cylinder head by 61.63 percent. The number of engines reworked fell by 71.93 percent.

### 3. Being Strict in Labor Discipline and Being Concerned for the Livelihood of Staff and Workers

In order to reverse the situation of lax discipline and low work efficiency at the Wuhan Diesel Engine factory, in the course of reordering the factory Gerich paid close attention to carrying out education in vocational ethics for the staff and workers of the whole factory. He also set personal example. He came to work early and left late every day, and often put in over 10 hours each day at the factory. Of this, over 90 percent was spent in the workshops, and whenever he found a problem he took immediate steps to resolve it. He often told the staff and workers that as the factory starts the shift at 8 o'clock, it is required that the machines start operation precisely at 7 o'clock. He made a calculation based on the situation at the Wuhan Diesel Engine Factory and estimated that due to starting machines late and shutting them down early, each person wasted at least 70 minutes each day.

Thus, the factory lost over 2,400 hours every day, which meant over 700,000 hours lost annually. He strongly urged the staff and workers to observe labor discipline and develop a concept of time, a scientific concept, and a concept of economic results. He established that the section heads, workshop cadres, and technical staff should spend most of their time getting deeply involved in the workshop groups. They were not permitted to sit in their offices reading newspapers or chatting. Once, he discovered three workers reading newspapers while they were on the job and, on the basis of their different situations, warned one, severely criticized another, and fined the third 10 yuan.

In order to make management more strict and raise work efficiency, he carried out a series of reforms in the factory. For example, in respect to the personnel system, he insisted that the standard for appointing and dismissing cadres be whether they were capable in their posts. "Being poor at one's job, means losing it." He placed stress on intellectuals, but not just on diplomas. In correcting the work style of meetings, he held that the factory had a great number of meetings but did not solve many problems. In order to free the cadres from so many meetings and allow them to concentrate their efforts on grasping production, he stipulated that if Wuhan Diesel Engine Factory was to hold a large meeting it had to be approved by him, that preparations had to be made before meetings, and that actual results were to be stressed. Gerich not only engaged in putting order into the factory, but also paid great attention to the lives of the staff and workers. He often said: "If we are



to realize production targets, we need to rely on the enthusiasm and conscientiousness of all the staff and workers in the factory, so as to make all workers feel that they are producing for themselves, producing for their children, and producing for the country, not producing for somebody else." In order to develop a close relationship with the staff and workers, he often went as a guest to the homes of the workers. When a worker was sick, he would visit him and take fruit and fresh flowers. When he discovered that there were difficulties for staff catching buses to and from work, he took the initiative to change the work schedule of the factory so that the workers could avoid the peak-hour rush when going to work. He also actively considered methods by which to resolve accommodation problems faced by staff and workers. last year, relevant departments conducted an opinion survey at the Wuhan Diesel Factory and many workers on their answer sheets clearly indicated: "With a manager as good as this, we work harder," and "Esteemed Mr Gerich is very welcome to continue as the manager of our factory."

### Several Inspirations

Looking back at Mr Gerich's experiences in putting the Wuhan Diesel Engine Factory in order, makes us strongly feel:

1. To be an entrepreneur, one must have fine qualities, be firmly dedicated, and be rich in specialized knowledge. These are the necessary conditions for managing an enterprise well. Gerich has said: "I am not a communist party member, but I believe in socialism and I believe that China can develop quickly. It is because I believe this that I came to China." "I am an idealist. In order to help China's peasants, and in order to produce more and better diesel engines, I want to use my remaining years to make a contribution to the great Chinese people. The Wuhan Diesel Engine Factory is your factory, and it is also my factory because I look on myself as a Chinese person." Because Gerich has firm dedication, although he is already 65-years-old, he does not shirk difficulties. He has left his wife and children and come a vast distance to China to work over 10 hours a day. Although he did return to West Germany for a rest, he has driven over 1,000 kilometers in all directions doing things for the Wuhan Diesel Engine Factory. The staff and workers of the factory praise this 60-plus year-old man, saying that he has the energy of a 40-year-old, and that he is firm and indomitable in his stamina.

Gerich is also an expert. He esteems science and acts strictly in accordance with the law of science. Thus, he has been able to firmly put order into the factory and, proceeding from China's conditions and also the conditions at the Wuhan Diesel Engine Factory, adopt suitable management measures. When he had just assumed the post of manager of Wuhan Diesel Engine Factory, people all expected him to swiftly adopt a set of advanced management methods from West Germany.

However, he used the "familiar conventions" of our existing management and proceeded by grasping basic work. it was precisely because of such down-to-earth and serious work that the Wuhan Diesel Engine Factory was able to achieve stable and sustained development and experience few great fluctuations.

2. How are we to resolve the question of the quality of an enterprise's products? Where should an enterprise concentrate when it is grasping quality? Gerich's methods in the Wuhan Diesel Engine Factory are very worthy of our consideration. When a quality problem occurred in the products of the Wuhan Diesel Engine Factory, he felt that the specific operators had a responsibility, but more importantly the chief engineer had not done his work properly. He also felt that the head of the inspection section also had to take major blame. Thus, he persisted and firmly decided that these two comrades be removed from their posts. We often say that "when there is a problem below, the responsibility lies at the top." But what exactly is responsibility "at the top" and how is it to be shouldered? We often do not seek "to see what happens in the final chapter," tending to settle things by leaving them unsettled. Is not Gerich's method, in various senses, the "prescription" we need to cure many of our existing ailments?

3. At the same time as improving the external environment, a factory manager needs to fully bring into play the role of subjective dynamism. Gerich's methods of putting the factory in order were not familiar to us; in addition, the Wuhan Diesel Engine factory's base was not good. The reasons the Wuhan Diesel Engine Factory has been able, within the short space of a year, to achieve such great changes provide us with much food for thought. We believe that apart from objective factors, the spiritual approach of our enterprise leaders will truly play a decisive role in this. The overall reform of our nation's economic structure has just begun. We cannot just sit and wait for an improvement in the external situation. We must, through reform within the enterprises, break through old irrational economic structures and promote and push forward the reform of our overall economic system. We must use reforms to change the face of the enterprises. This is something that the vast majority of enterprise leaders must do!

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ECONOMIC MANAGEMENT

XINJIANG REVIEWS QUALITY OF INDUSTRIAL PRODUCTS

HK240450 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 22 Apr 86

[Excerpts] The regional economic committee today held a meeting on quality control of industrial products. The meeting pointed out that the quality of some of the region's industrial products continued to worsen in the 1st quarter of this year. Of the 75 quality targets under examination, 25 dropped and the increase rate of the stability of quality was only 66.67 percent, much lower than that of the same period last year.

The regional standard bureau has examined quality targets of the region's 84 major products. Of these, the quality of 32 products is substandard. Of the 12 kinds of sweets under selective examination, the quality of 9 is substandard. The quality of all 19 kinds of paper under selective examination is substandard. At the end of last year, the regional standard bureau, in conjunction with the relevant departments, examined the quality of 237 kinds of wheat flour products of 192 flour processing units. It found that the quality of 180 kinds of flour products of 137 units was substandard, accounting for 76 percent of the flour products examined.

At the meeting, a responsible comrade of the regional economic committee pointed out that the inferior quality of the region's industrial products is now very serious. This merits the serious attention of all localities, departments, and enterprises. All departments and enterprises must earnestly implement the spirit of the regional economic work conference, seriously correct the guiding thought on their work, and genuinely put upgrading the quality of their products in the first place.

All in all, various measures, including technical, economic, administrative, and legal ones, should be adopted to turn the downward trend of the quality of industrial products as soon as possible.

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## ECONOMIC MANAGEMENT

### COASTAL AREAS EXPAND COOPERATION WITH INLANDS

OW250820 Beijing XINHUA in English 0802 GMT 25 Apr 86

[Text] Nanjing, Apr 23 (XINHUA)--China's coastal areas will expand economic cooperation with the western inland region this year in an effort to reform the country's economic structure, a state council official said yesterday.

"Their cooperation will focus on developing energy resources and raw materials," he told a conference on inter-regional cooperation called by the state council in Wuxi, Jiangsu Province.

"The two regions will also jointly develop new industries and increase the production of quality goods for Chinese and foreign markets," he added.

Since cooperation between the regions started in early 1985 on the proposal of premier Zhao Ziyang, 500 contracts and 1,300 letters of intent have been signed, involving 1.11 billion yuan in investment.

"According to the country's Seventh Five-Year Plan (1986-90)," the official said, "China will vigorously promote economic ties between the coastal and western regions to break down regional administrative barriers and achieve common prosperity."

As the plan points out, the coastal region -- which includes Shanghai, and Jiangsu, Zhejiang, Fujian, Guangdong and other provinces, is the most economically developed part of China and yet it is deficient in natural resources. The country's economic development shows a tendency to spread westwards.

The western inland region, which includes Sichuan, Guizhou, Shaanxi, Gansu and other provinces, is rich in natural resources, especially energy and mineral resources, and yet is underdeveloped.

One delegate said, "inter-regional cooperation will speed the development of natural resources in the west and ensure stable supplies of raw materials for the east."



For example, the western region has introduced 600 million yuan from the east to increase production of coal, iron and steel, non-ferrous metals and chemicals. In return, it will supply the east with these materials.

Shanghai, China's leading manufacturing center, has alone invested 300 million yuan in the western region to acquire supplies of pig iron, zinc, lead, tin and copper.

In addition, the coastal region helps the west boost exports by processing its silk, traditional Chinese medicinal herbs, and farm and sideline products.

In the meantime, areas in the Yangtze River Valley and the big cities of Chongqing, Wuhan, Nanjing and Shanghai along the river have been cooperating in expanding the Yangtze's shipping capacity to facilitate exports from the west.

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## ECONOMIC MANAGEMENT

### STATE INCREASES AID TO ETHNIC MINORITIES

HK260231 Beijing CHINA DAILY in English 26 Apr 86 p 1

[By staff reporter Zhu Ling]

[Text] The State is increasing financial aid to the country's ethnic minorities to maintain their economic development, according to a senior official of the State Nationalities Affairs Commission.

This year, the government will pump some 8.5 billion yuan into the economies of minority areas. This compares with 7.9 billion in 1985, Ba Tu, director of the commission's Financial and Economic Department, said yesterday.

"State aid will increase at an annual rate of 10 percent over the next five years," he said. "We must give full play to State aid to make the country's minority groups prosper faster."

Last year, the economies of areas inhabited by ethnic minorities made overall progress, according to official figures issued by the commission yesterday.

The total industrial and agricultural output value in 1985 was 79 billion yuan, a rise of 14.6 percent over the previous year. "This was an increase of 58.6 percent over 1980," Ba Tu said.

China now has 55 national minorities, excluding the majority Han. The areas they inhabit cover some 60 percent of China's territory, and the minority population now totals 67 million.

Despite rapid economic growth, some 20 percent of the minority population do not have sufficient food and clothing, Ba said.

Ren Ying, the commission's vice-minister, said yesterday the problem could not be overlooked and had to be solved within the next five years.

"On the whole, the current economic situation of the country's ethnic minorities is the best since the founding of the People's Republic. Their economy has been put on course of health development," Ren said.

In 1985, their total agricultural output value was 35 billion yuan, up 8.1 percent on the 1984 figure and up 45.2 percent over 1980. The annual growth rate between 1981 and 1985 was 7.7 percent.

Ba Tu attributed the growth to the flexible policies the central government had introduced to stimulate the initiative of ethnic groups, allowing farmers and herdsmen freedom to determine how they make a living from the land.

Since 1980, for instance, all arable land and pasture in Tibet has been gradually contracted out to individuals to use as they see fit for the next 30 years. The government has exempted all Tibetans from taxes until 1990.

Total industrial output value in 1985 from the 40,000 ethnic industrial enterprises was 43.9 billion yuan, an increase of 20.2 percent over 1984 and up 70.5 percent over 1980. The annual growth rate of industrial output value was 11.3 percent between 1981 and 1985, Ba said.

The steady development has brought about a considerable improvement in people's lives. Between 1981 and 1985, their average consumption increased at an annual rate of 5.8 percent, the director said.

This year, one of the priority of the commission's work is the development of productivity in ethnic minority area, stimulating their initiative to close the gap between them and the Han majority.

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## ECONOMIC MANAGEMENT

### IMPROVEMENTS IN HEILONGJIANG INDUSTRIAL PRODUCTS DEMANDED

Harbin HEILONGJIANG RIBAO in Chinese 8 Nov 85 p 2

[Article by Ji Ping [4764 1627]: "Quality of Heilongjiang's Products in Urgent Need of Improvement--Provincewide General Quality Check on Industrial Products Described"]

[Text] To halt the present quality deterioration of some products, many prefectures (cities) counties and the departments concerned have conducted extensive check-ups on the quality of industrial products. According to incomplete statistics, 6,682 enterprises in the province have conducted check-ups on the quality of their own products. On this basis, the departments in charge at various levels have also conducted random checks on 3,420 varieties of products belonging to 2,082 enterprises. Of these products, 264 varieties, 7.7 percent, showed deteriorating quality. Of the 1,395 varieties rated by the state, the ministry or the province as fine-quality products, 58 of them, 4.2 percent, showed declines in quality. According to this quality check-up, the large and medium key enterprises seemed to have a stronger quality concept. Their quality control was fairly efficient and the quality of their products remained fairly stable. The ulterior business motives and poor management of the small and township enterprises have brought about a drastic deterioration of quality. In trying to make profits, some of these enterprises forgot all about business ethics and resorted to various deceitful means to victimize the consumers. This certainly cause widespread dissatisfaction.

Among the products of different trades, quality deterioration is most serious in household electrical appliances, food, drugs, and other items that are closely related to people's daily life. According to a unified provincial check-up on 97 enterprises producing 160 brands of household electrical appliances, 51, or 52.6 percent, of these enterprises and 76 varieties, 47.5 percent, of the products that had been checked on, failed to match the required standards. Among these products were 12 varieties of fine-quality products, and 4 of them failed to pass the check-up. Quality deterioration was even more serious in the food trade. According to the data of the check-up in Harbin, Mudanjiang, and four other cities and counties, only 9.5 percent of the beer was up to the standard. The deterioration was particularly serious in summer when many breweries, trying to increase their output and output value, did everything they could to reduce the longevity of the liquor. The



inferior quality of beer led to great dissatisfaction among the masses. In the same six cities and counties, check-ups were also conducted on 210 sample popsicles produced by 186 different enterprises, according to 7 scientific standards. None of these products were up to all these standards. Some enterprises even carried out illegal production and sold unwholesome food and fake drugs, causing popular indignation.

In fact, some township and town enterprises are in no condition to produce up-to-standard products. Without the setup, personnel and equipment for quality check-up or any standard to guide their organization of production, these enterprises can only produce inferior products. In Harbin, the Longquan Fire-Fighting Implements Plant is a specialized plant. The 8-kg portable fire extinguishers were checked according to five set standards and failed in three of them. Only 25.5 percent of the spare parts and accessories could pass the check. A fire broke out in Handan in May, and the fire extinguishers were found to be useless. Instead of putting out the fire, one of them exploded and wounded two firemen. This incident created a widespread repercussion. The milk powder produced by the Xinfu Milk Products Plant of Harbin, contained some bacteria which may cause disease, and the amount of bacteria was several times over the state-set limit. In March, a customer in Dandong ate it and suffered a "shock from poisoning." All the milk powder in Dandong was returned to the plant, but the plant dumped it on the Harbin market without taking any corrective action.

There are also some enterprises wilfully reducing the work of quality control in the name of "simplifying administration." According to a recent random check of 2,082 enterprises, 259 have either abolished their quality control or quality check sections or have merged them with other sections, and have assigned some of their quality-check personnel to some lower levels. There were 105 enterprises without any quality-check setup or specialized quality-check personnel. The Xiangfang Comprehensive Timber Processing Plant of Harbin merged its quality-check section and sent part of the quality-check personnel to work in the workshops. The quality of its products markedly deteriorated. As shown in a random check conducted by the Provincial Standardization and Measurement Bureau in August, the proportion of this plant's first-grade plywood had dropped from 63.1 percent in 1984 to 53.2 percent. The Harbin No 2 Motor Vehicle Spare Parts Plant paid no attention to quality at all. From November last year to April this year, there were three cases of quality-check personnel being beaten up. These personnel could not do their work properly and there was no strict quality standard to speak of. After the check-up, four out of the nine varieties produced by this plant were found to be substandard; and one of the two fine-quality products could not measure up to the required standards.

At present, the leadership in some regions, departments and enterprises still fail to pay due attention to the work of quality check, and some leaders even condone these shortcomings and try to "minimize the consequences of major issues and disregard the minor issues." Even though some serious quality problems were discovered during the check-up, the culprits could get away with just a fine. Thus those unscrupulous elements selling fake drugs and unwholesome food did not get the punishment they deserved.

The quality of products has a direct bearing on the interests of the state and the consumers. For the enterprises, it is a vital issue. Therefore, we must give priority to the question of product quality, correctly handling the relationships between quality and quantity and between speed and economic results to truly improve product quality.

## FINANCE AND BANKING

### PROSPECTS FOR LIMITED-LIABILITY COMPANY DISCUSSED

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 8, 20 Aug 85 pp 32-36

[Article by Fu Zuxi [0265 4371 3556]: "Limited-Liability Stock Company--The Best Model for Pooling Capital"]

[Text] At present, a prominent problem needs to be resolved in economic construction. The problem is caused by our inability to use the idle funds of society, which have increased substantially, and locate funds needed for the founding of many enterprises. For many years, our way of getting funds was to look up and hold out our hands to the state, asking for financial allocations. In the past few years, we looked out, turned to foreign countries for help and absorbed foreign capital. Facts have proved that under the former method, funds cannot increase endlessly due to limited state financial resources; under the latter method, although we should try our best, we cannot always get what we want because of the characteristics of foreign funds. We think that in order to solve the problem of fund shortage in large-scale construction, we should look down in addition to looking up and out to make up the deficiencies of the first two methods. This is because it is first possible and second necessary to pool funds in this manner. At present, there are over 100 billion yuan in the savings deposits of urban and rural banks and over 30 to 40 billion yuan of cash in the hands of the people. In addition, there are also many different kinds and classes of savings deposits in government organs, mass organizations, enterprises, institutions, rural households and work groups. Although banks can transfer part of the savings deposits to production funds, the amount of funds banks used directly for investment is rather limited, not to mention the fact that the use of funds itself is a problem and that a certain kind of market mechanism is required to regulate the direction of the flow of investment and improve the results of investment. In addition, it is a waste to bury funds in a cellar, but misuse or overspending of funds seems to be also harmful and rushing to purchase goods in short supply is even worse. We may consider the existence of large amounts of idle funds as a potential danger. Because of this, we must think of a way to meet both needs--to use idle funds and locate capital for enterprises. This method is already commonplace in other countries. It is an old road followed by almost every country which has developed a commodity economy. Because large-scale commodity production requires large amounts of money, and old investment methods such as sole proprietorship and partnership could no

longer satisfy the demands of socialized large-scale production, the limited-liability stock company emerged as the times required. Marx once said some famous words: "If we had to wait for some individual funds to grow to such an extent to be able to build railways, I am afraid that there would have been no railway in the world today. But through joint-stock companies, this job was completed in no time" ("Das Kapital" Vol 1, p 688).

We all know the contribution of the invention of the steam engine to the industrial revolution of the bourgeoisie in the 18th century, but we are not very clear about the equally great contribution made by the establishment of the corporate system to the industrial revolution. In the corporate system, the most typical, common and effective corporation is limited-liability stock company. In the development history of commodity economy, the limited-liability stock company and steam engine can be considered two great discoveries. Marx also fully estimated this. He said: "At first, it squeezed in quietly as a small adjunct of accumulation .... But before long, it became a new deadly weapon in the struggle of competition; eventually, it turned into a huge social organization for pooling funds" ("Das Kapital" Vol 1, p 687). Unfortunately, due to a leftist infantile disorder, this has been criticized and rejected indiscriminately for many years. Even today, the remaining influence of this disorder still makes some of us "turn pale at the mention of a tiger" and afraid to express opinions easily. Some people "fall for its novelty," but they still have the attitude of "staying at a respectful distance from ghosts." In fact, Marx already said that even in a capitalist society, the joint-stock system "still rejects the capitalist concept of personal wealth on the basis of the capitalist system itself. The bigger the joint-stock system expands and the deeper it makes its way into new production departments, the better it would eliminate personal wealth" (see "Das Kapital" Vol 3).

Why can't we inherit good and useful things from a capitalist society? Of course, we would not copy them indiscriminately. We would inherit, improve and develop them. The important thing is that we should first understand and study their systems and then, in accordance with the social system and actual conditions of China, develop a Chinese model limited-liability stock company. Later on, we may revise it through practice and continue to improve it so as to open up a new road for China's investment system. What is wrong with this?

The so-called limited-liability stock company must be a corporation in legal terms because many of its characteristics are exactly the same as the characteristics of a corporation. It is an economic entity with its own articles of association and organization. It has independent wealth which in fact is a basis for limited liability, whereas limited liability is a demonstration of independent wealth. After its founding is approved by law, it will become a subject with the ability to exercise rights and perform functions. Its organization, articles of association and independent wealth provide the basis for its qualifications as a subject. There are many kinds and classes of companies in the world. In addition to limited-liability stock companies, there usually are limited-liability companies, limited partnerships, partnerships and unlimited companies. But, the limited-liability stock company is the only one that is a "standard" corporation as well as the best model for pooling large amounts of social funds. The limited-liability

company (which does not issue stocks) is also a "standard" corporation, but it is very hard for such a company to pool the idle funds of society, especially small amounts of idle funds. The limited partnership is not quite "standard" because it has some shareholders whose liabilities are not limited to their investment in the company. The partnership has defects in both fields. The unlimited company is not a "standard" corporation. Many countries do not even recognize it as a corporation not to mention its function of absorbing large amounts of social funds. This is exactly the reason we have chosen this model of limited-liability stock company.

A limited-liability stock company, as its name implies, should issue stocks. The common practice is to issue a fixed amount of stock in large numbers but small denominations of shares bearing or not bearing the names of the owners. Shareholders' liabilities are limited to the face value of their holdings. Shareholders will be given dividends and extra dividends. Issuing a fixed amount of stock is conducive to the issue, market exchange and computation of stock. Issuing a large number of shares in small denominations makes it convenient to pool scattered funds of society and accumulate petty cash to be used as a large sum of money. Whether stocks should bear the names of their owners depends on concrete situations because they each have different functions. Limited liability encourages investors to subscribe to stocks because it guarantees that there will be no risk other than losing the money they paid at the time of the subscription. Dividends give shareholders a fixed amount of income. The amount of extra dividends not only reflects the management situation and market reputation of the company but also gives shareholders some actual benefits in addition to dividends, thereby further linking shareholders' interests to the company's.

The limited-liability stock company has two other extremely important characteristics. One is that it has given birth to a large number of shareholders who do not participate in the management of the enterprise, thus promoting the separation of ownership from rights to administration and management. To encourage this rational form of enterprise and protect investors' rights and interests, the state should formulate relevant laws (such as the business law and corporate law in some countries) to define in unequivocal terms the scale of organizations and operations and the duties and rights of the company. Usually, there is a strict procedure for approving the founding of a company. Companies generally have a rational and complete set of articles of association, personnel and supervising and managerial bodies such as stockholders' meeting, board of directors and supervisors' committee. This spurs enterprises to switch from management based on ties of blood to scientific management where enterprises are run by experts. Another characteristic of limited-liability stock company is that it needs to issue and transfer stocks. In capitalist countries, stocks are usually traded at stock exchanges; therefore, the stock exchange is a functional organ for pooling, transferring and regulating capital as well as a gigantic gambling house for speculators and troublemakers. We should use what is right and discard what is wrong in this practice and choose what is beneficial and avoid what is harmful to us. We should also weigh the pros and cons and make a careful choice. Only doing so can we make it serve our purpose without being troubled. This all depends on ourselves. Because of this, we have made the following suggestions for the consultation of all fields concerned.



We suggest that we try the following practices:

1. China's legal system is not yet complete. Relevant corporate and bankruptcy laws have not been formulated. Therefore, in order to perfect the organization of the limited-liability stock company, facilitate the issue of stock, protect investors' interests and enable this new thing to grow in a healthy manner and prevent it from coming to a premature end and committing serious mistakes, we may consider formulating a complete set of standard rules and regulations for limited-liability companies and demand that founders of every limited-liability stock company formulate their articles of association accordingly. Banks should refuse to issue stocks on behalf of those who fail to do so. Industrial and commercial administrative departments should refuse to approve their registration.

The standard articles of association should provide clear stipulations concerning the purpose, business operation, organization, and personnel of the company, duties and rights of each organ and shareholder, accounting, auditing, supervision, control, increase of capital, borrowing, stock issue, profit distribution, dividends, extra dividends and liquidation.

2. It would be better if the issue of stock is centralized in banks for the time being. In other words, banks should issue stocks on behalf of companies. There are four advantages: 1) banks have a higher reputation which is conducive to stock issue; 2) banks have more existing organs and personnel which make it easier for stock issue; 3) banks have solid financial strength which can provide support; and 4) banks are legally qualified for exercising supervision.

### 3. Stock Liquidation

There must be a quick and convenient way to liquidate stocks; otherwise, it will discourage people from buying stocks. While there is no stock exchange for the time being, we may consider adopting the following methods: 1) stipulate that stocks may be liquidated at the issuing bank; 2) stipulate that stocks may be transferred by the issuing bank on behalf of the company; 3) stipulate that stocks may be purchased by the issuing bank; 4) stipulate that stocks may be used as pledges; 5) stipulate that stocks may be transferred freely, but the transfer of title must be registered with the issuing bank. If necessary, banks may investigate and handle the transfers of title.

### 4. Stock Exchanges

Because there will not be many limited-liability stock companies for the time being and because other social conditions are still not available at present, there is no rush to open stock exchanges. When the time comes, we think it is better to open stock exchanges because: 1) Opening stock exchanges is conducive to trading stocks on the market, increasing the liquidity of stocks and pooling large amounts of idle funds in society. 2) Opening stock exchanges can help establish capital market, bring into play the functions of market feedbacks and mechanism, and regulate capital flow in a rational direction so that promising and beneficial industries and well-managed lucrative enterprises may get sufficient funds. 3) China's future stock exchanges will

not be a paradise for speculators. Instead, they will coordinate with banks, facilitate the implementation of state economic and monetary policies, supervise and assist in enterprise management, protect the lawful rights and interests of shareholders, master and analyze market information, and guide capital flow in a correct direction.

## 5. Stock Prices

In a capitalist society, stock prices are variable. The price fluctuation of stocks, especially those popular stocks which are used as bargaining counters in speculation, is not just a function of economic results and the market reputation of the company; it is also affected by macroeconomic, political and international relations. Moreover, stock prices are often manipulated by speculators. Stocks, bonds and gold make three big markets for speculation. Such things, of course, must not be allowed to reappear in the future stock market under the socialist system. We may minimize the possibility of speculation by formulating appropriate legal systems and a set of management methods. However, whether and how stock prices should be allowed to fluctuate remains an important subject to be studied. In our opinion, face value should be considered a standard during the issue of stock, and fluctuation above or below this level is prohibited. During the transfer of stock, stock prices may be calculated in two ways to give appropriate variations. One way is to divide the net asset value of the enterprise in a given period prior to the transfer by the number of shares of stock actually issued by the enterprise:

$$\text{sales price of a share of stock} = \frac{\text{assets} - \text{liabilities}}{\text{number of shares of stock issued}}$$

Another way to calculate stock prices is to estimate the increase and decline in the current value of stock and the rate of such increase and decline according to the amount of extra dividends distributed at the end of the previous year and the profit situation of the enterprise during the period prior to the sales of stock. China's stock prices should not be affected by various speculative factors. However, it is still necessary to set a reasonable price in accordance with the management situation of the enterprise and the supply and demand situation of the market. The issuing bank should take up the responsibility of computing and listing such prices. Only by so doing can we help capital flow in a rational direction and bring into play the mechanism of capital market.

In addition, banks may affect and regulate the buying and selling of stocks with floating liquidation rate, the disparity of buying and selling prices, dividend and extra dividend subsidies for buying and selling and the appraisal of stocks which are used as pledges for loans.

## 6. Dividends, Extra Dividends, and Others

Dividends and extra dividends are also one of the important questions in the issue of stocks. Theoretical problems involved will not be discussed here. We wish to talk about a few concrete opinions: 1) Generally, dividends paid on stocks should be fixed. Necessary changes in dividends should be strictly

stipulated in the articles of association. 2) Extra dividends must be distributed in correct proportion to the earnings of the enterprise. A rational ratio must be defined. It should not be changed willfully by enterprise leaders. This should also be stipulated in the articles of association. 3) Generally, no ceiling should be set for the total amount of dividends and extra dividends. If a limit is really necessary, it must not be too rigid or too low. 4) The distribution date of dividends and extra dividends should be specified in the articles of association. 5) Appropriate and rational stipulations concerning the number of shares of a certain company owned by each individual or unit should be worked out. 6) For the time being we should mainly issue stocks bearing the names of their owners. Stocks which do not bear the names of their owners may be gradually developed in the future. The names of those shareholders who are reluctant to "show their wealth" will be held in confidence by banks and companies. 7) All stocks must be bought and sold in cash. It is better not to deal in futures for the time being.

## 7. Stocks of Several Companies

1) When an existing enterprise issues stock, it should liquidate its assets and convert them into stock. 2) When several enterprises of the same industry or several enterprises of different industries are incorporated into a limited-liability stock company and decide to issue stock, all enterprises involved must liquidate all of their assets and convert them into stock. 3) When a new limited-liability stock company established by an existing enterprise issues stocks, the existing enterprise may convert the amount of its investment into stocks. 4) Newly established limited-liability stock companies generally should sell stocks mainly for cash. However, depending on the situation, they may allow converting other assets into stocks. 5) Limited-liability stock companies should provide stipulations in their articles of association concerning the issue of additional stocks resulting from the expansion of investment which is subject to the examination of the issuing bank.

In conclusion, I also want to say a few words to those well-intentioned comrades who are afraid that limited-liability stock company, especially stock exchange, may cause side effects or create negative factors, about our attitude: First, we should face and fully estimate the possibility of this practice. Second, we should not be afraid or stop eating for fear of choking. Third, we should believe that with our advanced socialist system and national strength and through careful research and conscientious exploration, we will be able to limit many unfavorable or even harmful factors to a fairly small scope. In sum, judged from the current situation, the limited-liability stock company is still a new thing. Many questions need to be further analyzed and repeatedly deliberated. But it is not impossible to select one or two feasible projects and experiment with them in pilot units so as to avoid being a long-term armchair strategist. Through practice we can also deepen our understanding and improve our methods. We think that using the model of limited-liability stock company to pool funds through the issue of stock to develop the economy is a major task. We are afraid that the far-reaching influence and significance of this task cannot be fully estimated. It is precisely because of this that we feel the necessity and heavy responsibility of exploring this issue.

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INDUSTRY

HEILONGJIANG NOTES LIGHT INDUSTRY TECHNICAL TRANSFORMATION

Harbin HEILONGJIANG RIBAO in Chinese 12 Nov 85 p 1

[Article by Gu Wanming [7357 8001 2494]: "Heilongjiang Develops Light Industry by 'Turning Eyes Inward' Instead of 'Striving for All-Round Success'"]

[Text] In developing its light industry for which it has good natural resources, Heilongjiang has followed the ideological guideline of "turning eyes inward" and paying attention to the technical transformation of its existing enterprises. This is the lesson learned from its experience of "striving for all-round success" by spreading out its resources blindly several years ago. This marks a profound ideological change.

In readjusting its industrial structure, Heilongjiang vigorously developed its light industry for which it has good resources. However, since some comrades were accustomed to "large projects," and some departments vied with one another for new projects and investment out of considerations for their own interests, the province unwittingly chose to "strive for all-round success," and most of its funds were spent on building new plants and setting up new establishments. At the beginning of last year, the province had 28 sugar-refineries, more than 100 milk-product plants, and some 400 textile mills, nearly half of which were small mills newly built in the past several years. The increase in the processing capacity was too fast and exerted a strain on the resources. The shortage of resources thus posed a new contradiction.

The province began to appreciate this ideological guideline last year. The authorities conducted a concrete analysis of the different courses of action taken by the Hongguang Sugar Refinery and the Heilongjiang Milk-Product Plant, and people were greatly enlightened by the result. The Hongguang Sugar Refinery spent 2 years on its own technical transformation, and its daily capacity for processing beetroots increased from 1,500 tons to 3,000 tons, with its profits doubled. The expenditure of time and money on the technical transformation, compared with that of building a new plant having a daily processing capacity of 1,500 tons, was one-third less. The Heilongjiang Milk-Product Plant was newly built in Anda with imported foreign capital. The daily milk output in the areas around Anda was only 100 tons, and there was originally a total processing capacity of 140 tons daily. Thus as soon as the new plant went into operation, the shortage of raw materials was keenly felt.



The light industry departments of the province also compared the economical results of large and small plants and discovered that in processing 1 ton of milk, the energy consumption of a small plant was more than 3 times that of a large plant, while the profits for small plants were less than half of those for large plants. Again, in processing 1 ton of sugar, a large plant's profits may be more than 120 yuan, while a small plant would lose more than 320 yuan. In view of these facts, they are now aware that even in the development of light industry, for which the advantage of resources is available, they must still proceed from realities and do what they are capable of. They must not blindly strive for high speed and build new plants; otherwise, the resources as an asset may turn out to be a liability and bring about many serious consequences.

For more than 1 year, Heilongjiang has strictly controlled the number of new projects in developing light industry, and not a single new outlet was established. At the same time, the authorities turned their attention to the technical transformation of the old enterprises and obtained fresh economic benefits. The light industry departments of the province have made in-depth investigations and scientific forecasts, besides readjusting their plans of development in a realistic way. At first, they envisaged an annual output of 1 million tons of sugar in 1990. Since this target is unrealistic, it has been revised to 700,000 tons.

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INDUSTRY

SLOWER GROWTH, BETTER ECONOMIC RESULTS FOR ZHEJIANG

Hangzhou ZHEJIANG RIBAO in Chinese 17 Nov 85 p 1

[Article by Yang Xingxuan [2799 5281 5503]: "Zhejiang Strengthening Macroeconomic Control with Remarkable Success; Better Economic Results Despite Slower Industrial Growth"]

[Text] By the end of October, the rate of industrial growth in Zhejiang had been reduced from 42.2 percent in the first quarter to 36.9 percent, while its revenues in the same period were increased from 16.9 percent to 32.8 percent. Production is becoming regular and the economic results are steadily improving. These are the fruits of the decision of the CPC Central Committee and the State Council on strengthening macroeconomic control, now being reaped in Zhejiang Province.

The economic departments in the province have adopted a series of measures for macroeconomic control since the first quarter of this year. The excessive speed of industrial growth was reduced and economic results were improved. The industrial departments have given up the idea of vying with one another in increasing their output value and are now stressing economic results while organizing their production. They are continuing to produce more easily marketable goods and export commodities to enrich the market and to withdraw currency from circulation on the one hand, and taking measures to restrict the excessive production of goods on the other. Thus the speed of growth is now subordinated to social economic benefits, and the normal development of production was ensured. By the end of October, the output value of state-owned industrial enterprises increased 14.4 percent over the same period last year and the rate of increase, compared with that of the first quarter, was reduced by 5.7 percent. The taxes and profits realized increased 18.7 percent over the same period last year, and 1.7 percent over the first quarter of this year. The conflict between speed and results has now been resolved. After the consolidation and the general quality check at an earlier stage, the quality of product gradually improved again in the second half of the year. In the province, 69 quality standards were set up specially for 54 types of products. According to a comprehensive evaluation at the end of September, the products either remained stable or became better than they were in the same period last year according to 57 of these standards, and the rate of quality improvement was 82.61 percent. The output value of fine-quality products increased 42.4 percent over last year.

The industrial departments pointed out: Because of the increase in the prices of raw materials, energy and other factors in production, the cost of comparable products may show an increase and cause greater losses. This matter deserves the serious attention of the leadership at various levels. All industrial departments and enterprises at various levels must pay great attention to their management, tap their potential, increase their internal power of assimilation and strive for even better results.

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## INDUSTRY

JPRS-CEA-86-059  
15 May 1986

### PAPER REPORTS 10 'GRATIFYING' MAJOR INDUSTRIAL IMPROVEMENTS

Shijiazhuang HEBEI RIBAO in Chinese 7 Dec 85 p 1

[Article: "Ten Major Changes in Hebei's Industrial Production During the Sixth 5-Year Plan as a Demonstration of the Tremendous Power of Party Policies and the Impetus of the Reform on the Sustained Development of Production"]

[Text] During the Sixth 5-Year Plan, industrial production in Hebei continued to improve every year. Industry is now undergoing a sustain and stable development, and 10 gratifying changes have taken place.

First, sustained and stable industrial growth. It had its ups and downs in the early stage of the Sixth 5-Year Plan, but picked up speed in 1983. In 1981, its output dropped 1.4 percent below the previous year, but rose 5.6 percent in 1982, 9.9 percent in 1983, 14.9 percent in 1984, and is expected to rise 15.4 percent in 1985, with an average growth rate of 8.7 percent each year. The task of "4 percent increase in agriculture and 5 percent increase in industry" as laid down in the Sixth 5-Year Plan was overfulfilled.

Second, a more harmonious proportionate relationship between heavy and light industries. The product mix was readjusted and the output of consumer goods was increased during the Sixth 5-Year Plan. The former bias toward heavy industry at the expense of light industry was changed. In 1985, the output value of light industry is expected to be 66.3 percent higher than in 1980, while that of heavy industry is expected to be 39.8 percent higher. In the total industrial output value, the ratio of light industry rose from 44.1 percent in 1980 to 47.9 percent, while that of heavy industry dropped from 55.9 percent in 1980 to 52.1 percent.

Third, accelerated construction in energy resources and transportation. During the Sixth 5-Year Plan, the productive capacity in coal industry was increased to 9.63 million tons, and the output in 1985 is expected to be 10.5 percent higher than in 1980. In the power industry, the installed capacity has been increased to 1.04 million kw and the volume of generated power is expected to increase 30.9 percent. Crude oil output was maintained at a steady rate of increase. A total of 630 km of new highways were built, and the turnover of cargo traffic in the localities is expected to increase 64.6 percent. The traffic handling capacity of Qinhuangdao harbor has been



increased, and a new harbor was built in Dakou He, Cangzhou Prefecture. For civil aviation, four air routes were set up from scratch.

Fourth, the simultaneous development of different economic sectors. Since 1983, according to the policy of simultaneous development of the state, the collective and the private sectors, the former bias toward the state sector and discrimination against the collective and private sectors have been changed. At the end of 1984, the number of state-owned enterprises numbered 3,759, an increase of 38 over 1980, and their output value increased 28.7 percent. There were 14,165 collective enterprises, an increase of 2,653, with a 45.3 percent increase in output value. The number of households engaged in industry in the townships was increased to 3,828.

Fifth, improved economic results. Stress has been laid on the improvement of economic results since 1983. The practice of striving for high speed and neglecting economic results has been changed, and the economic results have gradually improved. In 1985, the taxes and profits from industrial enterprises with independent accounting are expected to be higher than in 1980 by 35.4 percent. The total output value of the state sector of industry is expected to increase by 5.69 billion yuan of which 70 percent is realized through higher labor productivity. The increase of output no longer relies on increased manpower alone. The taxes paid and profits delivered amounted to 90 percent of the original value of the existing fixed assets, a 34.6 percent increase over the Fifth 5-Year Plan period.

Sixth, accelerated technical transformation of enterprises. Technical transformation of the existing enterprises was emphasized during the Sixth 5-Year Plan. This has helped speed up scientific and technological progress. The proportion of fixed-asset investment used in renovation and transformation was raised from 26.7 in the Fifth 5-Year Plan to 39.3 percent. In that 5 years, it is estimated that 7,300 projects of technical transformation will be completed and put into operation, by which time the new value of fixed assets will be equivalent to 26.3 percent of the original value of fixed assets in the industrial enterprises of the state sector in the province. Ninety percent of the investment was used on technical measures for production.

Seventh, gradual development of economic and technical cooperation with foreign countries. In upholding the open-door policy, the province has developed its economic and technical cooperation with foreign countries. Instead of being "sealed off," it is being gradually opened to the outside world. In these 5 years, the prefectures and cities of the province have carried out economic and technical cooperation with the fraternal provinces, municipalities and autonomous regions in more than 4,500 projects. They have also signed contracts with foreign countries for importing 273 technical projects of \$184 billion in value in addition to contracts and lease agreements for the use of foreign capital involving \$91.78 million on 143 projects. Some of these projects have been put into operation and are beginning to show good results.

Eighth, a new breakthrough in the formation of lateral economic ties. These ties among the enterprises at home have transcended the barriers between different regions, between urban and rural areas, and between different trades

and systems of ownership. The integrated economic bodies, formed at different levels, taking various forms and operating through many channels, have emerged in large numbers and are beginning to change the so-called "castle economy." Since 1983, 826 such integrated bodies have been set up, and 87 of them played the leading role because of their competitive products. With the remarkable improvement of their economic results, these integrated bodies will pave the way for research in readjusting the enterprises' organizational structure.

Ninth, reform as a means of increasing the enterprises' vitality. The structural reform of the urban economy focused on the invigoration of enterprises has helped simplify the administration along with the delegation of more power to the enterprises. The former practice of over-centralization and rigid control has begun to change. After the second step of substituting tax payment for profit delivery, more than 85 percent of the enterprises have adopted the system of economic responsibility mainly in the form of contracts. The phenomena of enterprises "eating from the same pot" of the state and employees "eating from the same pot" of the enterprises have also changed. The system of unified purchases and marketing by the state has been reformed, the mandatory plans have been reduced, and the enterprises are no longer isolated from the market. Production and business operations have undergone great changes. Some state-owned enterprises have adopted the system of factory directors assuming full responsibility to strengthen the chain of command in production. For some small state-owned enterprises, the policy of "state ownership and collective operation" was introduced. Among some large and medium enterprises, the accounting units have been split up into more smaller ones so that the branch factories and workshops will have greater power. All these reforms have increased the enterprises' vitality and promoted the development of production.

Tenth, continued improvement in workers' quality. After the reshuffle of the leading bodies of the industrial enterprises above the county level in the province, the number of cadres who are more revolutionary, younger, better educated, and more professionally competent, have increased considerably. According to an analysis on 72 large and medium key enterprises, the average age of their leading body members is 45, and 81 percent of them have received university or specialized education. A national examination was held on more than 2,800 factories directors under training, and 95 percent of them passed the examination. In addition, 55,000 workers and staff members have attended various types of universities and specialized colleges, and 190,000 economic cadres at all levels have received short-course training. The updated knowledge and the increased competence of the cadres and workers have also improved the enterprises' operation and management.

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## INDUSTRY

### SHIP DISMANTLING TRADE DEVELOPING RAPIDLY

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 31 Dec 85 p 3

[Article by Wang Lijiang [3769 7812 3068] and Ding Genxi [0002 2704 0823]:  
"China's Ship Dismantling Trade in Top Ranks of the World"]

[Text] Ship dismantling as a new trade is rapidly developing in China. By now, nearly 300 factories are engaged in this trade, and 118 of them are directly working for the state. This trade has become a regular productive undertaking and ranks among the best in the world.

China has experienced difficulties from the shortage of steel materials for many years and has spent large sums of foreign exchange on importing these materials. Ship dismantling is one effective means to solve this problem. As we understand, the same amount of foreign exchange used on importing salvaged ships for dismantling would increase the available amount of steel materials by 40-50 percent. Furthermore, the huge number of ships to be salvaged in the world have provided a good opportunity for China to develop its ship-dismantling trade.

Many ship-dismantling factories have now been built from scratch in Liaoning, Tianjin, Shandong, Shanghai, Guangdong and Guangxi, and China's ship-dismantling trade, formerly dismantling only small ships of 5,000-6,000 tons, is now capable of dismantling large tankers of more than 20,000 tons. Its annual dismantling capacity has increased many times over. Its technical equipment has also been greatly improved along with the reduction of environmental pollution year after year. Most of these factories are up to state standards. In the past 3 years, according to statistics, 268 ships have been dismantled in China and approximately 1.9 million tons of metals were obtained from this source. These metals from the hulls and other scraps were turned into 1.6 million tons of rolled steel plates and alloy steel, in addition to nearly 20,000 tons of nonferrous metals including copper, aluminum and Babbitt metal. The pressure on the steel market at home has been alleviated.

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INDUSTRY

BRIEFS

EXCESSIVE WOOLEN MILLS ANTICIPATED--According to a comprehensive report on various localities, the contradiction between wool supply and demand in China is very acute because the wool resources are inadequate for the requirements of woolen textile production. Therefore, the localities should not build any more woolen textile mills. The present national resource of processed wool is 110,000 tons a year, whereas the 1.5 million woolen spindles already have a capacity for 140,000 processed wool. The shortfall of 30,000 tons of processed wool is equivalent to 80,000 tons of unprocessed wool. Because of the rise of living standards and the increased demand for woolen fabrics in the past several year, there are signs of woolen textile mills being built everywhere. In Xinjiang--the major wool producing region--alone, the building of 21 such mills is being planned. These mills, together with those already in operation, will use up all the wool produced locally and the transfer of wool to other provinces, in the amount of 10,000 tons a year, can no longer be continued. At present the national capacity of wool spinning has increased one-third, and still tends to increase further. Many mills will be confronted with the problem of operating under capacity. [Text] [Chengdu JINGJI XIAOXI in Chinese 21 Feb 86 p 1] 9411

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## CONSTRUCTION

### IMPORTANT ROLE OF BUILDING INDUSTRY IN SHANDONG

Jinan DAZHONG RIBAO in Chinese 15 Nov 85 p 1

[Article by Lu Jianzong [7627 1696 4920] and Lu Tongzong [7627 2827 4844]:  
"Shandong's Building Industry Serves as a Pillar of the Economy"]

[Text] The conscientious implementation of the policy of readjustment and reform in Shandong's building industry has enabled the enterprises to develop rapidly along with the continued increase in the workforce. It has also infused new vitality and vigor into the entire trade so that it will serve as a pillar of the economy in accelerating the four modernizations and bringing prosperity to the people and the province. During the Sixth 5-Year Plan, according to an estimate, its output value reached 8.6 billion yuan, the completed floorspace amounted to more than 31 million square meters, and the taxes and profits paid and delivered exceeded 110 million yuan. This trade made the greatest contribution to the national revenues in Shandong.

Readjustment and reform have infused vitality and vigor into the building trade. During the Sixth 5-Year Plan, an all-round consolidation was carried out in Shandong along with a reform in the management structure, first in the units and later for the overall system. Of the 49 state-owned enterprises engaged in building and installation, 89.8 percent have adopted various forms of contracted responsibility system, and more than 2,500 projects, 85.9 percent of the total number, were contracted to the construction units. These projects covered a total floorspace of 3.26 million square meters, 87.6 percent of the total housing construction area. The system of investment contracts and public bidding adopted in various localities of the province, which is different from the former method of job assignments with administrative means, now begins to encourage competition, resulting in the survival of the good and the elimination of the bad. Since 1984, more than 1,900 construction projects involving an area of 4.33 million square meters have been put to public bidding, which has been fairly effective in reducing the construction cost and shortening the construction periods.

Readjustment and reform have markedly raised the standards of technical equipment and of the technologies of designing and construction. During the Sixth 5-Year Plan, the machinery and other equipment for the construction and building enterprises in Shandong were markedly increased and the degree of mechanization continued to rise. At the end of 1984, the state-owned

construction enterprises owned more than 9,200 sets of construction machinery of 13 major types, an increase of more than 10 percent over 1980, for excavation, bulldozing, shovelling, weight-lifting, loading and unloading, and so forth. The standards of prospecting and designing and the technology of construction have been greatly raised in the past 5 years. The province is now capable of prospecting, designing and building many important construction projects of a complex technical nature all on its own. Some of these projects have even won state or provincial awards for their fine quality. In these 5 years, the province won more than 20 awards for its good designs. The building trade has also achieved notable success in scientific research and received commendations from the state, the ministries and the province for 12 scientific research projects.

The reform has promoted the development of the construction workforce. At the end of this year, the state-owned, collective, and specialized building contingents will have a total of 340,000 persons, and the addition of another 600,000 persons from the township and town enterprises in the province will make a grand total of 970,000 persons [figures as published], nearly doubling the number of 1980. The development of the construction industry and the expansion of the construction workforce, like the development of economic diversification in the countryside, will provide many job opportunities for the surplus labor as well as the unemployed youths in cities. The party's policy of opening the country to the outside world and invigorating the economy at home has provided a huge market for the building industry. During the Sixth 5-Year Plan, a 60,000-strong construction workforce in Shandong went to more than 10 provinces and cities in Heilongjiang, Jilin, and Nei Monggol to undertake many construction projects. A team of 2,400 construction workers has also been dispatched to six countries in the Middle East and Africa to undertake 21 construction projects either under contracts or in the form of labor cooperation, and the contracts signed are valued at more than 110 million yuan.

9411

CSO: 4006/564

## CONSTRUCTION

### PROGRESS OF 9 KEY CONSTRUCTION PROJECTS DESCRIBED

Beijing JINGJI RIBAO in Chinese 16 Dec 85 p 1

[Article by Ji Xuan [5060 1357]: "Spectacular Progress in Nine Key Engineering Projects"]

[Text] Editor's note: Since the CPC Central Committee laid down the policy of concentrating all financial and material resources to ensure the progress of the key construction projects, China has speeded up its construction focusing on the energy, transportation and raw material industries. For the current year, the State Planning Commission has selected a total of 169 key construction projects to be organized on the basis of rational construction periods. Thanks to the common efforts of the construction units, the materials departments, the local governments and the people, the speed of progress and the quality of work are generally above the national average. Today, we will report on the spectacular progress of several key projects so as to acquaint the readers with the state of key projects now under construction. [End of editor's note]

#### 1. Hebei's Fengren Power Plant

The No 1 generator of 25,000 kw had its first firing on 29 October. Now it is busy with various preparations for turning on the main switch. Installation of the No 2 generator is currently winding up.

#### 2. Second Phase of Work on Gezhouba Power Station

By the end of October, more than 89 percent of the annual plan for concrete pouring had been completed. The entrance section of the power station in the main channel has been completely surfaced and the top of the dam is now open to vehicle traffic. All 48 swing doors for the work, inspection and repair entrances have been hoisted into position, and the chutes in 14 of them have been tested. The generating sets are now being installed. All nine arc-shape doors for the scouring gates in the main channel have also been installed and the mechanical devices for controlling all 18 of these doors have been hoisted into position. Two of these entrances can be readjusted and tested singly. The concrete work on No 1 shiplock has been basically completed, the installation of the metal structure has begun, and all-out efforts are being made in dismantling the cofferdams in both the upper and lower streams of the

main channel. At the worksite, the builders of Gezhouba are now testing the opening and closing of the gates, checking on the quality of work, making adjustments, and conducting intermediate inspections.

### 3. Hebei's Xingtai Power Plant

Firing of No 1 generator of 200,000 kw was carried out on 30 October, followed by the merging of power grids on 31 October. The main switch was functioning well, and power is being generated in the merged power grids. The system is now waiting to be handed over for use in production.

### 4. Guangdong's Yunfu Iron-Sulfate Mine

The scope of construction is for an annual ore output of 3 million tons, and the mine is basically completed according to the planned construction period. Among the 26 single-item projects, those of mining and stripping have been completed. The ore-selection and the ore-breaking plants have successfully completed their first trial operation with loads. The narrow-track railway from the mine-site to Liudu and the Liudu wharf are already in operation. The roadbed for a special Yunfu railway of standard track has been basically completed, and the other projects for the maintenance of locomotives, steam-boilers, water and electricity supplies, and communications have also been completed one after another.

### 5. Urumqi's General Petro-Chemical Plant

The equipment for processing chemical fertilizers in Dahuafei Plant has been completely installed, and more than 15,000 tons of up-to-standard urea has been produced. Now the synthetic ammonia equipment is operating with 75 percent load and the urea equipment is operating with 70 percent load. Production is going on normally. It took only 102 days for this plant in Xianjiang to go into trial operation with load. This is the shortest recorded period for similar equipment using residuum as raw material, and the expenses involved were reduced more than 30 percent.

### 6. Daqin Railway

This is the year for work to begin on an all-out basis; it is also the crucial year for the construction of the whole railway. From the beginning of the construction to the end of October, 49 percent of stone and earthwork for the roadbed and 50 percent of the designed number of bridges were completed. In building the tunnels, eight openings with a depth of more than 100 meters each for double-tracks were dug out in one month, and the one at the exit end of Huaguoshan tunnel was dug at the rate of 224 meters per month. This was the highest record in building tunnels for double-track railways.

### 7. Double-Tracking Nan-Tong-Pu Railway

Of the seven sections to be traversed by this railway, five of them are already open to traffic, while rails are being laid in the remaining two sections, according to the current year's plan.



#### 8. Pingshuo Opencut Coal Mine

Since 1 July, when work formally started, 2 million cubic meters of earth, 67 percent of the planned figure, has been stripped. Of the 151 projects related to administration and people's daily life, 80 have been completed.

#### 9. Dalian Harbor's Xianglujiao Bulk Cargo Wharf

According to the scope of construction, the annual traffic handling capacity will be 960,000 tons. There will be two deep-water and two intermediate berths. In the course of construction, Dalian Harbor adopted the system of investment contracts and public bidding as required during the current reform. As a result, the construction periods for the berths to the north and the south of the wharf were shortened by 7 months and 3 months respectively, and the investment was reduced by 20 million yuan.

9411

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## CONSTRUCTION

### YUNNAN'S URBAN CONSTRUCTION DURING SIXTH 5-YEAR PLAN

Kunming YUNNAN RIBAO in Chinese 6 Jan 86 p 1

[Article by Hu Pingying [5170 1627 5391]: "Yunnan's Remarkable Achievements in Urban Construction During Sixth 5-Year Plan Period"]

[Text] With the aid of the governments at all levels, Yunnan has intensified its efforts in urban housing, municipal utilities, environmental sanitation and other infrastructural projects, and increased its investment in urban construction two-fold during the Sixth 5-Year Plan period. The floorspace completed exceeded the grand total of the period from the First to the Fourth 5-Year Plans.

Yunnan increased its investment in urban capital construction every year during the Sixth 5-Year Plan period, and by the 3d quarter of 1985, the investment already amounted to 300,980,000 yuan, more than trebling the amount in the Fifth 5-Year Plan period. In the past 5 years, according to incomplete statistics, the floorspace of new houses in the province totaled more than 13.2 million sq m, exceeding the grand total of 20 years from the First to the Fourth 5-Year Plans by more than 2.18 million sq m. In Kunming, it was estimated that the area of housing construction already completed amounted to 4.8 million sq m, 2.72 times the grand total before the liberation, while the per capita floorspace was increased from 1.4 sq m in 1980 to more than 2 sq m. Housing construction also developed very rapidly in Dali, Gejiu, Dongchuan and other cities, where housing areas or residential groups have been completed one after another. The county towns likewise showed remarkable achievements.

The supply of water for drinking and daily use by the urban population was fairly greatly improved in the past 5 years. During the Sixth 5-Year Plan, many waterworks were put into operation in the cities of Kunming, Dali, Qujing and Kaiyuan, and those of Baoshan, Dongchuan and Gejiu were renovated and expanded. In Qiubei, Weishan, Mouding, Lunan, the frontier towns Menglian and Zhongdian, and nearly 24 other county towns, waterworks were also put into operation one after another. By now, the daily supply of water reached 433,000 tons, an increase of 172,000 tons over 1980, and the residents of some cities and county towns, formerly without or short of water supply are now able to drink wholesome tap water. At the same time, water drainage has also greatly improved in the province.

Another feature of urban construction during the Sixth 5-Year Plan period is the fairly great development of transportation. In 11 cities and more than 100 county towns throughout the province, new roads were built and old roads were widened or improved to varying extents. The total length of city roads in the province in 1985 was estimated to be 470 km, more than 2.2 times the 209 km in 1980. The number of public buses in the cities was increased from 398 to more than 680, and public transportation service was introduced in some small cities formerly without any bus. The number of street lights in the cities was some 16,000 in 1983; at the end of 1985, it exceeded 21,000. From 1983 to 1985, the provincial construction department had little more than 150 refuse trucks, dung trucks and watering trucks in the province; now the number of these trucks has been increased to 230, more than 4 times the number of 1980. Nearly half of the county towns are now using motor vehicles for the disposal of trash, manure, and city wastes.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

**IMPORTS, EXPORTS SHOW INCREASE--**Beijing, April 17 (XINHUA)--China's imports and exports totaled 14.61 billion U.S. dollars in the first 3 months of this year, a rise of 3.9 percent over the same 1985 period, according to customs statistics. The state Statistical Bureau made public these figures here today. It also announced that the trade volume includes 5.84 billion U.S. dollars for exports and 8.77 billion U.S. dollars for imports, representing increases of 4.3 and 3.6 percent respectively. Between January and March, the bureau said, China imported more goods for production while cutting the imports of consumer goods. With the expansion of tourism as well as construction projects and labor services overseas, China's non-trade exchange income had a surplus of 1.16 billion U.S. dollars in the first 3 months. [Text] [Beijing XINHUA in English 1241 GMT 17 Apr 86 OW]/12766

**DOUBLE TAXATION AGREEMENT SIGNED--**Singapore, April 18 (XINHUA)--Singapore and China signed an agreement here this afternoon on the avoidance of double taxation between the two countries. It is the second major document between the two countries following an investment protection pact last November, which covers the settling of investment disputes. Hsu Tse-kwang, commissioner of Singapore Inland Revenue, and Jin Xin, director-general of China's General Bureau of Taxation, signed the agreement on behalf of their respective governments. The agreement, which was initiated in Beijing early this month, will remove double taxation and provide concessions for any incentives designed to encourage economic development in both countries. It will become effective after being ratified by both governments. Ending nearly 1 year of negotiations, the agreement covers a wide range of activities and items of income and adequately deals with their tax consequences. It provides that either country would reduce its tax on dividends, interest and royalties received by residents of the other country. A provision has been specially incorporated for the benefits of Singapore entrepreneurs investing in China, whereby any incentives such as exemption from and reduction of tax granted by China in any investments and projects will be given full recognition by the Singapore tax authority. [Text] [Beijing XINHUA in English 1437 GMT 18 Apr 86 OW]/12766

**EXPORTS TO HONG KONG INCREASE--**Hong Kong, April 11 (XINHUA)--China's mainland exported 1.35 billion U.S. dollars-worth of goods to Hong Kong during the first 3 months of this year, up 48.62 percent over the same period of last year. According to the China Resources (Holdings) Co. Ltd here, exports from the mainland included textiles, grain, handicrafts and animal husbandry, light industry and engineering products. Local experts attributed this in part to improved demand on the Hong Kong market. [Text] [Beijing XINHUA in English 1300 GMT 11 Apr 86 OW]/12766



## XIAMEN'S FOREIGN EXCHANGE IMBALANCE ANALYZED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 9, 5 Sep 85, p 21-23

[Article by Lin Jianhan [2651 1696 5060]: "Special Policies, Flexible Measures; Inquiry into the Problem of the Xiamen Special Economic Zone's Foreign Exchange Imbalance"]

[Text] With the enlargement of the limits of the Xiamen Special Economic Zone [SEZ], construction has made great progress. In 1984 the gross value of industrial and agricultural output for the entire city reached 1,727 billion yuan, investment in capital construction reached 420 million yuan, and the practice of importing and inviting foreign investment and cooperating domestically has also made good progress. According to statistics, by the end of 1984, formal agreements for projects involving Chinese-foreign joint ventures and cooperative ventures, and wholly foreign owned ventures numbered 152; total investment reached \$696 million, of which 383 million is foreign investment. There are 128 signed agreements from 1984, 6 times more than the sum of the previous 3 years. Domestic cooperation enterprises also constantly increase. By the end of last year, domestic enterprises and joint enterprises in Xiamen numbered 119. Along with the acceleration of construction in the SEZ, we must carry out a great number of large-scale construction projects with elevated starting points, introduce advanced foreign technology and equipment to transform old enterprises, introduce foreign investment to initiate new enterprises as well as import the necessary raw materials. These then require large amounts of funds, above all foreign exchange. However, at present the contradiction between using exchange and creating it is very prominent, principally in that there is more spending of exchange than the creation of it. In addition, because the state has strengthened control over foreign exchange this year, exchange investment sources and exchange credit cannot increase very much, exacerbating the problem of balance of foreign exchange. Resolving this problem has thus become a top priority of the Xiamen SEZ.

The causes of the foreign exchange imbalance are multi faceted; they can be summarized as follows:

1. Projects to import advanced technological equipment and transform old enterprises increase daily, such that the amount of foreign exchange needed to maintain equilibrium increases with them. Last year the Xiamen SEZ signed 128

agreements that directly used foreign capital for a total investment of \$510 million. As for importing technological equipment to transform old enterprises, in 1983 there were 37 agreements that used foreign exchange totalling \$24 million; in 1984 there were 91 agreements that used \$47.84 million in foreign exchange; of those, 54 projects that were completed in 1985 used \$32.33 million. The preliminary plans for transforming technology in the 3 years from 1985 to 1987 require exchange in the amount of \$420 million. Thus if 542 projects are introduced in the 5-year period from 1983 to 1989, they will require foreign exchange funds of \$524 million. In these imported projects there is a clear difficulty in trying to sell the products on the international market immediately after going into production; furthermore, some belong to "exchanging markets for technology," while demanding that every project maintain a balance of foreign exchange is impossible. This creates a problem, namely that when more foreign capital projects are imported, the amount of foreign exchange funds required to maintain equilibrium increases correspondingly, and thus it becomes more difficult to balance foreign exchange.

2. Some imported projects must rely upon imported raw materials; in addition, the products are not sold abroad, such that foreign exchange cannot maintain a balance. According to statistics, since 1979 old enterprises importing projects have spent \$6.57 million to purchase raw materials and basic machine parts. Some comrades have calculated that in the 5-year period from 1983 to 1987, 542 projects will have been imported in which foreign capital will transform old enterprises, spending a minimum of \$500 million for materials. Yet at present only a very small proportion of the imported projects have actually been able to export products and create foreign exchange. For example, the Guliang Island Radio Equipment Plant produces condensers, and every year it must rely on the state to supply \$720,000 to import aluminum foil and other products. Even though the condensers could be sold on the international market, because the price is low inside the country the plant is unwilling to export. It spends foreign exchange to import raw materials but cannot create exchange. This is bound to aggravate the foreign exchange imbalance.

3. The products of some Chinese-foreign joint enterprises are sold domestically in great quantities; not only does this not create exchange, but it also requires that large amounts of foreign exchange be spent. For example, the Xiamen Overseas Chinese Electronics Company now buys the basic parts needed for production from a Hong Kong Kang Li subsidiary company and the Matsushita Company of Japan. At the start of 1984 foreign exchange letters of credit reached \$2.67 million. According to designed production capacity, by 1985 it ought to be able to produce 500,000 color televisions and 700,000 tape recorders and provide the majority of spare parts itself. The 3 projects together require foreign exchange of \$1.2 million. At present, however, products for domestic sale take precedence, and foreign exchange funds cannot be balanced. The Xiamen New Electronics Company has also encountered this kind of problem. At the start of last year foreign exchange letters of credit reached \$2.7 million, and no exchange was created. At

present, because basic parts are still not made domestically for Chinese-foreign joint enterprises and definite problems exist in selling the products abroad, it is difficult to balance foreign exchange.

4. The irrational use of exchange is another cause of the inability to balance foreign exchange funds. Last year a large portion of the commodities purchased abroad and sold domestically as well as imports purchased by agent exports using their percentage of retained foreign exchange, were disposable. Moreover, most imported supplementary raw materials are used to produce consumers commodities for domestic sale; that actually used in the production of products capable of increasing exports and generating exchange is very little. Some projects that should not use it do spend foreign exchange, such as an SEZ-operated shoe factory that last year purchased ordinary equipment and materials, eventually spending foreign exchange in the amount of \$400,000. Due to irrational and indiscriminate use of exchange, foreign exchange funds cannot be accumulated for use in a certain number of key projects.

To sum up, the reasons that created the inability to balance the Xiamen SEZ's foreign exchange funds are multifaceted. Mainly it is because the pace of the zone's construction has quickened, requiring foreign exchange funds in large amounts. There are currently few ways to generate exchange and there are limits to the amount of exchange. As for foreign trade, when imports are greater than exports there is a large foreign trade deficit. The SEZ is currently in its initial stage of development; a vast number of things remain to be done, and it is not unusual that the foreign exchange funds appear unbalanced. Other export processing zones in the world in the early stages of establishment have all experienced this inability to balance foreign exchange funds. At present the Xiamen SEZ's foreign exchange funds principally must depend on the central authorities and related departments for support. However, the key to solving this problem still rests with the SEZ itself, because in China's experimental special economic zones an important task is to attract foreign exchange and increase foreign exchange reserves in order to strengthen the country's capabilities in relation to foreign economic activity. If even SEZ's are unable to generate exchange and must rely on long-term state subsidies, how can the nation's foreign exchange reserves be built up? Thus we say that resolving the imbalance of the Xiamen SEZ's foreign exchange funds must still be based on Xiamen. By adhering to the principle of utilizing multiple means both for creating and for economically using foreign exchange, the SEZ will achieve a self-balancing of foreign exchange funds in a step by step manner.

Based on the actual situation of the Xiamen SEZ, there are two ways to generate exchange: increasing foreign exchange revenues from trade, and increasing non-trade foreign exchange revenues. Some specific views on these two methods are discussed below.

1. Develop in the direction of foreign trade and vigorously expand exports, especially the use of agent exports outside the plan. This is the basic solution for the Xiamen SEZ's foreign exchange fund imbalance. After the war the Japanese economy was able to achieve rapid development, and one of the reasons was that it adopted "reconstruction through trade" and "exports first"



as national policy. Exports spurred domestic production and introduced advanced technology and equipment, developing the domestic economy at top speed. Other regions in Asia with rapid economic development primarily depend on expanding exports and rely on swiftly expanding exports to support imports. On one hand they make extensive use of foreign technology and equipment to develop exports and generate exchange, and on the other hand the exports that are developing at full speed also sustain the use of foreign exchange. It is worth learning from their methods. We ought to take advantage of the favorable conditions provided by China's current opening up to the outside to further introduce our commodities into the world market. Based on actual circumstances, at present we should emphasize expanding the export of light textile goods, handicrafts and various local specialities in an effort to improve our ability to generate exchange. Practice has proven that vigorously increasing production to export desired commodities, expanding exports and especially developing the use of agent exports outside the plan are extremely successful means of balancing the SEZ's foreign exchange funds. According to statistics from the Municipal Foreign Trade Office, apart from fulfilling the responsibilities of the national and provincial plans for exports, last year \$27.2 million in exchange was generated for the SEZ in more than 6 months' time through agent exports. In 1985 the planned exports through agents will be further expanded, and is expected to earn \$50 million. This will have a considerable effect on easing the SEZ's shortage of foreign exchange. Xiamen is opposite Taiwan and should take full advantage of this excellent situation to stimulate trade with Taiwan.

2. Focus on developing the tourist industry to increase foreign exchange profits. The tourist services industry, through publicizing the country's scenic and historical places, local conditions and customs, and supplying a variety of services, can attract large numbers of foreign travelers and floating capital, thereby increasing non-trade foreign exchange income. According to relevant data, in 1983 Yugoslavia's foreign exchange earnings from tourism amounted to \$1.2 billion, while that for both Egypt and Thailand also exceeded \$1 billion. In 1984 even the tiny area that is Hong Kong produced a record HK\$ 14.3 billion in tourism revenue. Developing the tourist industry is equivalent to exporting goods and services on the spot; it is a kind of "sightseeing resource export" that does not leave the country. Xiamen Island has long been called the "Garden on the Sea" and enjoys exceptional advantages as a tourism resource. Developing the tourism industry is a strong point of the Xiamen SEZ. Therefore, energetically adopting various measures to promote development of the tourist industry, and attracting even more tourists and floating capital, will surely enable the Xiamen SEZ's tourist industry to achieve a breakthrough in foreign exchange income.

3. Organizing labor services and technological exports is another means of increasing non-trade-generated exchange. Supplying labor and technical services is cheaper than exchanging export goods for foreign exchange, and more worthwhile. Energetically developing exports of labor services is an important channel by which to raise foreign exchange funds. According to estimates, Turkey now has 1 million people working outside the country, generating \$1 billion in exchange each year for the last 10 years, which accounts for one-third of that country's foreign exchange revenue. So far



this year Xiamen has also obtained definite success in exporting labor services. Since April 1981 it has successively supplied several Hong Kong steamship companies with more than 700 shipping workers for all kinds of jobs, generating more than \$1.9 million in exchange for China. Xiamen's exports of labor services, aside from simply exporting labor, can gradually increase contract projects, set up enterprises abroad, and further open markets and expand territories. Operating enterprises abroad can take advantage of favorable local conditions; by setting up processing and assembly enterprises, the products, besides being sold in the local market, can also be exported for the international market. The export of labor is a new enterprise; developing it can certainly create considerable foreign exchange revenue for the SEZ.

4. Organize compensation trade and processing of imported materials. The Xiamen SEZ has many old enterprises. There are 588 on the island, and transforming them requires large amounts of funds. Confronted with the contradiction of insufficient foreign exchange and an unrelenting demand for imports, compensation trade can increase the possibility of satisfying import demand. On the one hand, we could take advantage of compensation trade to import machinery and equipment to transform old enterprises; on the other hand, while industry develops the country in the direction of exporting machine equipment, it also has the obligation to purchase the goods that are produced after this kind of equipment goes into operation. This naturally expands our exports. Furthermore, organizing imported materials for processing and so forth and collecting a processing fee is also a means of increasing the SEZ's foreign exchange revenues.

5. Actively attracting remittances from overseas Chinese is an important source of non-trade foreign exchange revenue. Vigorously expanding overseas Chinese remittances for construction purposes is a particularly important means of securing large amounts of overseas remittances. Xiamen is a well-known native place of overseas Chinese. We should exploit every channel to attract overseas Chinese capital and remittances for contracts to build housing and buy goods and to encourage relatives of overseas Chinese to construct and repair housing themselves. At the same time we can appropriately offer a specified amount of goods and materials as commodity remittances from overseas Chinese, and encourage overseas Chinese to send money to relatives living in China. We should energetically introduce overseas Chinese compatriots to domestic banking interest rates and savings deposits and in this way recall and retain foreign and overseas Chinese capital. In short, there is definite potential for attracting and securing overseas Chinese remittances that we should actively exploit.

There are many ways to approach the problem of Xiamen SEZ's imbalance of foreign exchange funds. Apart from the several methods discussed above to increase the creation of exchange, we can also consider utilizing foreign capital and funds of overseas Chinese, expanding the channels to gather foreign capital by every possible means, and rationally using foreign capital to achieve the best economic results. As for utilizing foreign capital, apart from issuing bonds and stocks, and forming joint ventures, and so on, we could also consider attracting foreign banks, especially large multinational banks that come to establish branches in the Xiamen SEZ. Inviting foreign capital

and accepting capital from banks based on overseas Chinese foreign capital are ways of utilizing foreign capital. They can also facilitate relations between the SEZ and international financial circles. In addition we can consider applying for loans that are characterized by low interest rates and long repayment terms. Rationally using foreign exchange addresses Xiamen SEZ's imbalance of foreign exchange funds. There should be a unified plan for the use of foreign exchange that unifies management and applies the limited foreign exchange where it is needed most. The importation of advanced technology must comply with two principles: the first is to be able to earn foreign exchange, the second is to be able to use it economically. In summary, at present most of the limited amount of foreign exchange is used for projects that increase and generate exchange. Great efforts to assist the production of commodities for foreign trade export and strengthen the ability to generate exchange will enable the Xiamen SEZ to gradually achieve a balance of foreign exchange funds.

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CSO: 4006/103

## SPECIAL ECONOMIC ZONES

### EFFICIENCY AS IMPORTANT AS INFRASTRUCTURE IN OPEN DOOR

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 9, 5 Sep 85 p 59

[Article by Guo Nanzheng [6753 0589 1767]: "In Opening Up to the Outside, Take Note of the 'Invisible' Investment Environment"]

[Text] Investment environment usually refers to the basic infrastructure such as roads, running water, electricity, telecommunications, gas, drainage pipes, sewage pipes and the leveling of sites for construction. Basic infrastructure also refers to facilities for everyday services, and the natural geographic environment. These material forms without question provide the basis of opening up to the outside. However, we must recognize productivity and other elements as aspects of an "invisible" investment environment. The degree of efficiency of this type of "invisible" environment is a reflection of the activity and creativity of every level of organization and has a man-made and decisive influence on the construction of the material environment of the opened areas. The opened areas face the world's advanced technology and the international marketplace. They must have work organizations that are knowledge-intensive and highly efficient to enable those familiar with government to mix with those familiar with climate and topographical advantages. Then a strong "magnetic field" can take shape, sufficient to attract persons from every quarter, and by taking advantage of foreign capital we can accelerate the economic construction goals of the coastal areas.

Developed countries consider efficiency their lifeblood and thrive upon competition. Although those who come to China to invest place themselves in different spheres, they still are not free from the fierce competition of the international marketplace. Foreign capital and technology also select the "most favorable position," investing in the area with a superior geographical location, abundant natural resources, a stable society and a large labor force, to make a profit as quickly as possible. Whether efficiency is high or low is the key to the success or failure of investments. Without efficiency, vitality can be lost. The "marathon" workstyle and superior natural conditions become just the reverse, extremely unsuitable and simply causing people to shrink at the sight of it. It may even cause investors to become disheartened and change course. A Hong Kong merchant originally from Fujian

who managed an imitation leather business twice visited Fujian but discussions on projects were not completed. Afterwards he was invited to Shanxi and spent a week discussing and settling the matter of opening an imitation leather plant with advanced technology at Taiyuan. Another overseas Chinese originally from Fujian and known as "the shrimp king" wanted to provide the funds, equipment and technology to catch shrimp in his native place, but numerous talks were unsuccessful. Later he set up a team in Guangxi to catch shrimp. He also went to Dalian and Qingdao to set up cold storage, and he built two guesthouses in Guilin. One can see that different efficiencies can have two extremely different results!

There are many overseas Chinese from our province with close ties to various countries. The overseas Chinese who return home to invest and build all have great warmth for their country and native place. The relevant departments should quickly study the feasibility of these projects. Examination and approval should be given as quickly as possible to technological advancement and projects that have good prospects for development. We must give full expression to the high efficiency of "special policies and flexible measures."

Efficiency also follows the continually changing yardstick of technological progress. Because of this, we must adopt advanced technological measures and change every level of organization in favor of highly intelligent and capable offices of brains and computers. Establishing an information network that links up the international markets will enable every policy decision to have a reliable scientific basis, raising productivity in a practical manner.

To create a good "invisible" investment environment, reform of the leadership organizations must be carried out. We must place intelligent and capable personnel from all circles who thoroughly understand their professions in front-line positions. The "invisible" investment environment is extremely important to opening up to the outside world and attracting foreign capital, and at the present we should pay particular attention to it.

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## TRANSPORTATION

### CAAC TO SPEED UP DEVELOPMENT, MODERNIZATION

HK220830 Beijing CHINA DAILY in English 22 Apr 86 p 2

[By Niu Qiuxia]

[Text] The China Civil Aviation Planning Conference which ended yesterday heard the plans of the Civil Aviation Administration of China (CAAC) for the Seventh Five-Year Plan period. It will further reform its administration, strengthen its top management and improve its economic results, CAAC said.

Major targets for CAAC during the next five years were worked out during the 11-day conference. It was stressed at the conference that the emphasis will be on modernization.

"Civil aviation in China is now at its first stage of development. It is far from advanced," said a CAAC official who attended the conference.

"With the growth of our national economy and tourism, the pressure on civil aviation is intensified. To meet the demand, CAAC must speed up its development," he said.

It was pointed out at the conference that airports should be modernized in order to accommodate more and large planes. Airports in cities other than Beijing should improve their facilities to be able to handle planes of at least medium size. CAAC will give priority to the construction of key airports in terms of funds, raw materials and equipment. These airports should also have modern safety facilities and air communication and navigation systems.

In 1985, CAAC bought 41 aircraft, some with international loans or through credit purchase. It also completed the construction of five airports, in Lianyungang, Qinhuangdao, Shijiazhuang, Dandong and Yanji. More than 20 new international and domestic air routes were opened in 1985. The total volume of air transportation increased by 37.8 percent over 1984.

It was decided at the conference that the improvement of equipment at Chongqing, Xi'an and Wuhan will be major projects in 1986. Modern air traffic control systems in five airports including Dalian, Xi'an and Wuhan will be put into use this year.

During the Seventh Five-Year Plan period, CAAC is going to update its aircraft. Modern aircraft will replace the old. Maintenance of aircraft and ground services will be improved.

In order to meet the heavy demand on some major routes, CAAC decided to offer more seats. Scheduled flights to and from the seven tourist centers of Beijing, Guangzhou, Shanghai, Guilin, Hangzhou and Xi'an will be increased.

Available seats for major routes will be increased by 20 percent during the tourist season. CAAC plans to open seven new domestic airlines this year, including Guangzhou-Changzhou-Beijing, Xiamen-Guilin, and Guangzhou-Beihai-Nanning lines.

CAAC noted that even though most major air routes are crowded, seats and space are often wasted because of inefficient management. Ticket-booking is a major problem to be tackled, it said.

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TRANSPORTATION

BRIEFS

CAAC TO OPEN CHARTER FLIGHT--Manila, Apr 5 (XINHUA)--The Civil Aviation Administration of China (CAAC) will open a charter flight between Manila and Xiamen (AMOY) in east China, it was learned from the CAAC Manila office today. The once-a-week air service will operate for three months from mid-April to June. Xiamen is a special economic zone in Fujian Province where many overseas Chinese came from. The Civil Aeronautical Bureau of the Philippines has recently given its approval to the charter flight. The existing Beijing-Guangzhou-Manila scheduled service inaugurated by CAAC in 1979 remains operational. [Text] [Beijing XINHUA in English 1244 GMT 5 Apr 86 OW] /12624

GUANGXI ZHUANG TO EXPAND FACILITIES--Nanning, Apr 18 (XINHUA)--The Guangxi Zhuang autonomous region will invest a record two billion yuan in port and highway construction in the coming five years, a local official said today. Upon completion, the region will be able to transport cargo from southwest China to Guangdong, and Hong Kong and Macao, the official of the regional transport bureau said. Guangxi's two major ports -- Beijai and Fangcheng -- are being expanded by adding six 10,000 dwt deepwater berths. These berths will go into operation this year. A railway linking Nanning, the regional capital, and Fangcheng will open to service this year and a 104 km railway linking Nanning with Pingguo County, which is richly endowed with nonferrous metals, will be built in the coming five years. Other transport projects being built and expanded in the 1986-90 period include 11 highways and 20 highway bridges, and navigation facilities on the Xijiang River. [Text] [Beijing XINHUA in English 1539 GMT 18 Apr 86 OW] /12624

BEIJING TO IMPROVE HIGHWAYS--Beijing, Apr 16 (XINHUA)--Beijing will build and widen ten roads and rebuild five others this year to ease city traffic jams, BEIJING DAILY reported today. The ten roads include a 52-kilometer section of the Beijing-Shijiazhuang Highway. The five trunk roads to be rebuilt are those linking Beijing with Chengde, Zhangjiakou and Fengning in Hebei Province, Yuanping in Shanxi Province and Tanggu in Tianjin. Upon completion, these highways will facilitate development of Beijing's tourism and satellite towns. The road density in Beijing is 0.54 kilometers per square kilometer, ranking first in the country, the paper said. During the 1981-1985 period, the city built, widened or asphalted more than 1,400 kilometers to add up the total length to 8,482 kilometers at the end of 1985. [Text] [Beijing XINHUA in English 1511 GMT 16 Apr 86 OW] /12624

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